Agenda

Audit Committee

Date:	Wednesday, 17 November 2021
Time:	14:00
Venue:	Hybrid Meeting
Contact:	Ashley MacIntyre, Committee Officer ashley.macintyre@west-dunbarton.gov.uk

Dear Member

Please attend a meeting of the **Audit Committee** as detailed above.

The Convener has directed that the powers contained in Section 43 of the Local Government in Scotland Act 2003 will be used and Members will have the option to attend the meeting remotely or in person at the Civic Space, Church Street, Dumbarton.

Yours faithfully

JOYCE WHITE

Chief Executive

Distribution:

Councillor John Mooney (Chair)
Councillor Jim Brown
Councillor Karen Conaghan
Councillor Daniel Lennie
Councillor Jonathan McColl
Councillor John Millar
Councillor Martin Rooney (Vice Chair)
Councillor Brian Walker
Mr C Johnstone
Mr C Todd

All other Councillors for information

Chief Executive
Chief Officers

Date of issue: 4 November 2021

AUDIT COMMITTEE

WEDNESDAY, 17 NOVEMBER 2021

AGENDA

1 STATEMENT BY CHAIR

2 APOLOGIES

3 DECLARATIONS OF INTEREST

Members are invited to declare if they have an interest in any of the items of business on this agenda and the reasons for such declarations.

4 RECORDING OF VOTES

The Committee is asked to agree that all votes taken during the meeting be done by roll call vote to ensure an accurate record.

5 MINUTES OF PREVIOUS MEETING **5 - 7**

Submit for approval as a correct record, the Minutes of Meeting of the Audit Committee held on 15 September 2021.

6 OPEN FORUM

The Committee is asked to note that no open forum questions have been submitted by members of the public.

7 PRUDENTIAL INDICATORS 2020/21 TO 2030/31 AND TREASURY MANAGEMENT STRATEGY 2021/22 TO 2030/31 **9 – 51**

Submit report by the Chief Officer – Resources providing the opportunity to further scrutinise the Prudential Indicators for 2020/21 to 2023/24 and the Treasury Management Strategy (including the Investment Strategy) for 2021/22 to 2023/24 and the indicative indicators for 2024/25 to 2030/31 as well as an update to Financial Standards which will lead to amendments to some indicators during 2022/23.

8/

8 AUDITED ANNUAL FINANCIAL STATEMENTS 2020/21 To Follow

Submit report by the Chief Officer – Resources detailing the Audited Annual Financial Statements 2020/21.

9 INTERNAL AUDIT PLANS 2020/21 AND 2021/22 - PROGRESS TO 18 OCTOBER 2021 53 - 77

Submit report by the Chief Officer – Resources advising of progress at 18 October 2021 against the Internal Audit Plans for 2020/21 and 2021/22.

AUDIT COMMITTEE

At a Meeting of the Audit Committee held by video conferencing on Wednesday, 15 September 2021 at 10.01 a.m.

Present: Councillors Jim Brown, Karen Conaghan, Daniel Lennie, Jonathan McColl, John Millar*, John Mooney, Martin Rooney and Lay Member Mr Christopher Todd.

* Arrived later in the meeting

Attending: Joyce White, Chief Executive; Peter Hessett, Chief Officer – Regulatory & Regeneration; Angela Wilson, Chief Officer – Supply, Distribution & Property; Malcolm Bennie, Chief Officer – Citizen, Culture & Facilities; Laura Mason, Chief Education Officer; Sylvia Chatfield, Head of Service - Mental Health, Addictions and Learning Disabilities; Andi Priestman, Shared Service Manager – Audit and Fraud; Alison McBride, Strategic People and Change Manager; Fiona Taylor, Senior Nurse; Christine McCaffary, Senior Democratic Services Officer and Ashley MacIntyre, Committee Officer.

Also Attending: Christopher Gardner, Audit Scotland.

Apologies: An apology was intimated on behalf of Mr Christopher Johnstone, Lay Member.

Councillor John Mooney in the Chair

DECLARATIONS OF INTEREST

It was noted that there were no declarations of interest in any of the items of business on the agenda.

MINUTES OF PREVIOUS MEETING

The Minutes of Meeting of the Audit Committee held on 16 June 2021 were submitted and approved as a correct record subject to a potential typo in the heading of Item 5 'Prudential Indicators 2020/21 to 2030/31 and Treasury Management Strategy 2021/22 to 2030/31' being corrected.

OPEN FORUM

The Committee noted that no open forum questions had been submitted by members of the public.

STRATEGIC RISKS 2017-22

A report was submitted by the Chief Officer – People and Technology providing an update on the strategic risks for 2017-22.

After discussion and having heard the Chief Officer – People and Technology in further explanation of the report and in answer to Members' questions, the Committee agreed:-

(1) to note the strategic risks as detailed at Appendix 1 of the report; and

(2) to note the Supplementary EU Assurance Plans as detailed in Appendices 2 and 3 of the report.

INTERNAL AUDIT PLANS 2020/21 AND 2021/2 PROGRESS TO 18 AUGUST 2021

A report was submitted by the Chief Officer – Resources advising of progress at 18 August 2021 against the Internal Audit Plans for 2020/21 and 2021/22.

After discussion and having heard the Shared Service Manager – Audit & Fraud in further explanation of the report and in answer to Members' questions, the Committee agreed to note the contents of the report.

Note: Councillor John Millar joined the meeting during consideration of this item.

PUBLIC INTEREST DISCLOSURES AND OTHER INTERNAL AUDIT INVESTIGATIONS 1 JANUARY TO 18 AUGUST 2021

A report was submitted by the Chief Officer – Resources advising of the outcome of investigations into allegations and disclosures in line with public interest disclosure and business irregularities policies received by Internal Audit between 1 January to 18 August 2021.

After discussion and having heard the Shared Service Manager – Audit & Fraud in further explanation of the report and in answer to Members' questions, the Committee agreed to note the content of the report.

NATIONAL FRAUD INITIATIVE EXERCISE 2020/21

A report was submitted by the Chief Officer – Resources providing an update on the current position with regard to the National Fraud Initiative in Scotland 2020/2021 Exercise.

After discussion and having heard the Shared Service Manager – Audit & Fraud in further explanation of the report and in answer to Members' questions, the Committee agreed to note the contents of the report and agreed that further updates would be provided to the Audit Committee outlining the Council's progress with the 2020-2021 exercise.

The meeting closed at 10.57 a.m.

WEST DUNBARTONSHIRE COUNCIL

Report by the Chief Officer - Resources

Audit Committee: 17 November 2021

Subject: Prudential Indicators 2020/21 to 2030/31 and Treasury Management Strategy 2021/22 to 2030/31

1. Purpose

1.1 Following approval at Council on 22 March 2021 the purpose of this report is to provide members with the opportunity to further scrutinise the Prudential Indicators for 2020/21 to 2023/24 and the Treasury Management Strategy (including the Investment Strategy) for 2021/22 to 2023/24 and the indicative indicators for 2024/25 to 2030/31 as well as an update to Financial Standards which will lead to amendments to some indicators during 2022/23

2. Recommendations

2.1 Members are requested to consider the report and note that on 22 March 2021 Council:

(a) Agreed the following Prudential Indicators and Limits discussed in Appendix 1 and set out within Appendix 6 for the period 2020/21 to 2023/24:

- Capital Expenditure and Capital Financing Requirements (Tables A and B);
- Forecast and estimates of the ratio of financing costs to Net Revenue Stream (Table D);

(b) Approved the policy for loans fund advances discussed in Appendix 1 in section 3;

(c) Approved the Treasury Management Strategy for 2021/22 to 2023/24 (including the Investment Strategy) contained within Appendices 2 to 6;

(d) Agreed the following Treasury Prudential Indicators and Limits discussed in Appendix 2 and set out within Appendix 6 for the period 2021/22 to 2023/24:

- Operational Boundaries (Table F);
- Authorised Limits (Table G);
- Counterparty Limits (Table J); and
- Treasury Management Limits on Activity (Table L);

(e) Noted the draft Prudential and Treasury Management Indicators for the period 2024/25 to 2030/31 discussed in Appendices 1 and 2 and set out within Appendix 6;

(f) Approved the statement by the Section 95 Officer regarding the gross debt level in comparison to the Capital Financing Requirement (Appendix 2 - Point 2.3); and

(g) Noted the report will be referred to Audit Committee for further scrutiny.

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 CIPFA defines treasury management as:

'The management of the local authority's borrowing, investments and cashflows, its banking, money market and capital investment transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.'

3.3 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.

3.4 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.

3.5 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.

3.6 The CIPFA Treasury Management Code of Practice requires greater Member scrutiny of the treasury polices, increased Member training and awareness and greater frequency of information.

3.7 One of the key clauses is that a responsible body is required to ensure effective scrutiny of the treasury management strategy and polices. Within West Dunbartonshire Council the body identified to fulfil this role is the Audit Committee.

3.8 The proposed and draft Prudential Indicators 2020/21 to 2030/31 and Treasury Management Strategy 2021/22 to 2030/31 should be referred to the Audit Committee once approved by Council to ensure further scrutiny takes place.

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 6 of this report details the Council's expected year end indicators for 2020/21, revises the indicators for 2021/22 to 2023/24 and projects the indicators to 2030/31, with those for the period 2024/25 to 2030/31 being indicative at this time.

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 2021/22 to 2030/31 is included in Appendix 6 (with the period 2024/25 to 2030/31 being indicative at this time) 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.

Changes to Financial Regulations - Leasing

4.4 The Treasury Management Strategy report to Council in March 2020 reported a change to financial Regulations regarding leasing. The change has since been postponed and is now due to change on 1 April 2022.

4.5 Due to changes within the Financial Regulations in relation to Leases, which brings the assets and future liabilities for all leases onto the Council's Balance Sheet from 1 April 2022. The effect of this change will increase the 'level of debt' identified by the Council; the Capital Financing Requirement; Operational Boundary; and Authorised Limit, by the future liability of the leased assets. Forecast and estimates of the ratio of financing costs to Net Revenue Stream may also be affected in future years. This change affects all Councils, though this Council has a low number of leased assets.

Capital Strategy

4.6 For information, in December 2017, CIPFA issued a revised Prudential Code. As a result, from 2019/20, all local authorities were required to prepare a Capital Strategy report, which is intended to provide the following:

- a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services;
- an overview of how the associated risk is managed; and
- the implications for future financial sustainability.

4.6.1 The aim of the Capital Strategy report is to ensure that all elected members fully understand the overall strategy, governance procedures and risk appetite entailed by the Strategy.

4.6.2 The Capital Strategy (included elsewhere on the agenda for this meeting) includes capital expenditure, investments and liabilities and treasury management in sufficient detail to allow all Members to understand how stewardship, value for money, prudence, sustainability and affordability will be secured.

5. Option Appraisal

5.1 No option appraisal was required for this report.

6. People Implications

6.1 There are no people implications arising from this report.

7. Financial and Procurement Implications

7.1 The prudential indicators detailed in Appendix 6 show the Council's likely and indicative capital financing for the period 2020/21 to 2030/31 while the treasury management indicators detailed in Appendix 6 show the likely borrowing requirement for the same period.

7.2 Table E in Appendix 6 indicates that in each year the gross borrowing requirement (which includes short term borrowing for cashflow purposes) is below the capital financing requirement and does not exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2021/22 and following two financial years (Appendix 2 – section 2.1 and 2.2).

7.3 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.

7.4 There are no procurement issues arising from this report.

8. Risk Analysis

8.1 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.

9. Equalities Impact Assessment

9.1 No equalities impact assessment was required in relation to this report.

10. Environmental Sustainability

10.1 No assessment of environmental sustainability was required in relation to this report.

11. Consultation

11.1 Legal and Resources have been consulted in relation to this report and appendices.

12. Strategic Assessment

12.1 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.

Stephen West
Chief Officer - Resources
Date: 28 October 2021

Person to Contact: Gillian McNeilly, Finance Manager Church Street, Dumbarton
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Appendices:	1	Prudential Indicators 2020/21 to 2030/31
	2	Treasury Management Strategy 2021/22 to 2030/31
	3	West Dunbartonshire Council and Common Good Funds Permitted Investments, Associated Controls and Limits
	4	Counterparty Rating Explanations
	5	Approved Countries for Investment
	6	Prudential and Treasury Indicators

Background Papers: Treasury Management Strategy – Council 4 March 2020
Treasury Mid-year update – Council 16 December 2020
Budget Update – Council 24 February 2021
Budget Update – Council 3 March 2021
Treasury Management Strategy Statement and Annual Investment Strategy (Link February 2021)
Scotland's Economic and Fiscal Forecasts (Fiscal Commission Scotland January 2021)

Wards Affected: All wards affected.

Capital Prudential Indicators 2020/21 to 2030/31

1. The Capital Expenditure Plans

1.1 The Council's gross capital expenditure plans are summarised in Table A within Appendix 6 and this forms the first of the prudential indicators. Total expenditure is partially funded by resources such as capital receipts, capital grants, etc. Any remaining expenditure which cannot be immediately funded from other resources will form a borrowing need.

1.2 A certain level of capital expenditure will be grant supported by the Government; anything above this level will be funded from the Council's own resources.

1.3 There are two main limiting factors which may impact on the Council's ability to undertake unsupported capital expenditure:

- Whether the revenue resource is available to support in full the implications of capital expenditure, both borrowing costs and running costs; and

- The Government may use a control to limit either the total of all councils' plans nationally, or in the event of an assessment by central government that local plans are unaffordable at a specific council, it may implement a local control. No such control has been implemented since the inception of the prudential code, however, HM Treasury keep this under review.

1.4 The summary of capital expenditure, as per the capital plan updates reported to Council 3 March 2020 for HRA and 22 March 2021 for General Services, is shown in the table A in Appendix 6. The HRA capital plan refresh extends to 2025/26 with the period from 2026/27 to 2030/31 extracted from the HRA Business Plan for the purposes of Prudential Indicator calculations.

1.5 Under section 22 of Schedule 3 of the Local Government (Scotland) Act 1975 a local authority may establish a capital fund to be used for "defraying any expenditure of the authority to which capital is properly applicable, or in providing money for repayment of the principal of loans (but not any payment of interest on loans)". Furthermore paragraph 24 of Finance Circular 7/2018 confirms that capital receipts may also be used to "fund the cost of premiums, either as they are incurred, or as they are recharged back to the General Fund/ HRA".

1.6 The capital plan update for General Services reported to Council assumes an element of capital receipts is used to fund the principal element of loan charges between 2020/21 and 2023/24. This has been adjusted for within these indicators, where appropriate.

2. The Council's Borrowing Need (the Capital Financing Requirement)

2.1 The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is a measure of the Council's underlying borrowing need. The net capital financing need (as indicated in Table A in Appendix 6) impacts directly on the CFR.

2.2 Due to accounting requirements the CFR currently includes any other long term liabilities (i.e. PPP schemes, finance leases) brought onto the Balance Sheet. Whilst this increases the

CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council currently has £100m for PPP schemes within the CFR. From 1 April 2022, further accounting changes see operational leases (where the Council is lessee) also being brought onto Balance Sheet, which will further increase CFR through other long term liabilities (value to be confirmed).

2.3 The CFR projections for both General Services and HRA are shown in table B in Appendix 6 and show that the CFR for the HRA is projected to increase each year from 2020/21 to 2030/31 with the CFR for General Services being anticipated to increase each year UNTIL 2025/26, due to the levels of projected capital spend in comparison to income anticipated in that year.

2.4 The expected impact of the capital expenditure decisions above on the Council's debt and investment position are shown in the treasury strategy (Appendix 2).

3. Statutory repayment of loans fund advances

3.1 The Council is required to set out its policy for the statutory repayment of loans fund advances. The repayment of loans fund advances ensures that the Council makes a prudent provision each year to pay off an element of the accumulated loans fund advances made in previous financial years.

3.2 A variety of options are provided to Councils so long as a prudent provision is made each year as detailed below:

Option	Method	Detail
1	Statutory	Loans fund advances will be repaid by the annuity method. The Council is permitted to use this option for a transitional period only, of five years until 31 March 2021, at which time it must change its policy to use alternative approaches based on depreciation, asset life periods or a funding/income profile as detailed below.
2	Depreciation	Annual repayment of loans fund advances will follow standard depreciation accounting procedures.
3	Asset Life	Loans fund advances will be repaid with reference to the life of an asset using either the equal instalment or annuity method.
4	Funding/ Income Profile	Loans fund advances will be repaid by reference to an associated income stream

3.3 Council is recommended to approve the following policy for loans fund advances:

- For loans fund advances made before 1 April 2016, the policy will for all loans fund advances to be repaid by the annuity method, by the appropriate write off period (based upon useful asset lives, following the agreed Council policy).

- Recognising that the Council has forward capital expenditure plans and has already committed to that plan and the revenue implications of that plan, the policy for loans fund advances made from 1 April 2016 to 31 March 2021 the policy will be to mainly repay loans fund advances by the annuity method (with a write off period based upon useful asset lives) unless an alternative method is more appropriate. Advances will be considered on a case by case basis to determine the method to be used.

- For loans fund advances made after 1 April 2021, the policy for the repayment of loans advances will be to apply the following options, selecting the most suitable method from the list below for each individual advance.

    - **Asset life method** – loans fund advances will be repaid with reference to the life of an asset using either the equal instalment or annuity method. It is likely that the equal instalment method will be used;

    - **Funding / Income profile method** – loans fund advances will be repaid by reference to an associated income stream.

3.4 The annuity rate applied to the loans fund repayments is based on historic interest rates and is currently 9%.

3.5 Table C in Appendix 6 details the loans fund repayment profile for 2020/21 onwards based on the balance outstanding at 1 April 2020 and capital expenditure plans 2020/21 to 2030/31 as per Table A.

4. Affordability Prudential Indicators

4.1 The previous sections cover the overall capital and control of borrowing, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These indicate the impact of the capital investment plans on the overall Council's finances. The Council is asked to approve the following indicators:

4.2 Actual and Estimates of the ratio of financing costs to net revenue stream
This indicator is detailed in Table D in Appendix 6, and identifies the trend in financing cost of capital (loan charges and long term liability financing) against the net revenue stream (funding sources e.g. Scottish Government revenue support grant, council tax and HRA rental income).

The estimates of financing costs include current commitments and the impact of capital expenditure as per Table A and this indicator shows the percentage of total council revenue expenditure that is spent on repayment of loan charges and long term liability capital and interest repayments.

5. Financial reporting changes in relation to leases

5.1 From 1 April 2022 there is a significant change to the Accounting Code of Practice for 2022/23 onwards which the Council follows for their Financial Statements, which will impact on debt levels and prudential indicators in the future. This change is in relation to assets the Council leases in.

5.2 Currently there are 2 types of leases which are treated differently through the Financial Statements at present. From April 2022, all leases (where the Council is lessee and with a few exceptions) will require to be accounted for on the Council Balance Sheet as assets. For illustrative purposes, leases currently held by the Council (but not owned and therefore not currently on the Council's Balance Sheet) include leases for properties (such as Aurora/ Clydebank Town Centre Office/ Bridge Street), photocopiers, and vehicles. The treatment of these leases will become similar to the current accounting reporting for PPP assets.

5.3 Accounting for these leases on the Balance Sheet will result in increases to assets and long term liabilities, affecting a number of the prudential and treasury management indicators –

increasing: the ‘level of debt’ identified by the Council; the Capital Financing Requirement; Operational Boundary; and Authorised Limit, by the value of the leases. Forecast and estimates of the ratio of financing costs to Net Revenue Stream may also be affected.

5.4 Currently an exercise is underway to identify all leases and value both the asset value and the liability.

Treasury Management Strategy 2021/22 – 2030/31

1. Background

1.1 The treasury management service is an important part of the overall financial management of the Council's affairs. Whilst the prudential indicators in Appendix 1 consider the affordability and impact of capital expenditure decisions, the treasury service covers the effective funding of these decisions. There are specific treasury prudential indicators included in this strategy which need approval.

1.2 The Council's treasury activities are strictly regulated by statutory requirements and a professional code of practice (the CIPFA Code of Practice on Treasury Management – revised December 2017).

1.3 As a requirement of the Code Council is required to adopt a Treasury Management Policy Statement and four Treasury Management clauses. These form part of the Council's financial regulations and the following documents were adopted on 5 March 2018:

- Treasury Management Policy Statement
- Treasury Management Clauses
- The Treasury Management Role of the Section 95 Officer

1.4 The policy requires an annual strategy to be reported to Council outlining the expected treasury activity for the forthcoming 3 years, however in line with the longer capital planning process treasury management indicators have been provided (where appropriate) covering the period to 2030/31. 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:

- Mid-year monitoring report on actual activity during the year including revised indicators where appropriate; and
- Year-end report on actual activity for the previous year.

1.5 This strategy covers:

- The Council's debt and investment projections;
- Limits to the Council's borrowing activity;
- The economic climate and expected movement in interest rates;
- The Council's borrowing, debt and investment strategies;
- Treasury performance indicators;
- Specific limits on treasury activities; and
- Policy on ethical investments

2. The Council's debt and investment projections

2.1 The Council's forecast treasury portfolio position at 31 March 2021 with forward projections are summarised in Table E in Appendix 6 and shows the gross debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any under or over borrowing.

2.2 Within the prudential indicators there are a number of key indicators to ensure the Council operates its activities within well defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2020/21 and following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes. This is illustrated by comparing the estimated gross debt as at 31 March 2021 with the CFR as at 31 March 2024.

2.3 **The Section 95 Officer (Chief Officer - Resources) reports that the Council has complied with this prudential indicator, and no difficulties are envisaged for the current or future years.** This view takes into account the capital plan refresh reports for General Services and HRA.

3. Limits to Borrowing Activity

3.1 The Operational Boundary is detailed in Table F in Appendix 6 and is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt.

3.2 The Authorised Limit for External Borrowing – a further key prudential indicator represents a control on the overall level of borrowing. This represents a limit beyond which external debt is not allowed to exceed. This needs to be set or revised by Members. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. This is the statutory limit (Affordable Capital Expenditure Limit) determined under section 35(1) of the Local Government in Scotland Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised. The Council is asked to approve the authorised limit detailed in Table G in Appendix 6. The limit within the appendix has been increased to allow for an estimated increase in debt due to the Accounting requirement change in relation to leasing from 1 April 2022.

3.3 **Advance Borrowing -** This Council will not borrow more than or earlier than required purely in order to profit from the investment return of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

3.3.1 Advance borrowing will only be taken for risk management purposes subject to sound justification. The Section 95 Officer may do this under delegated power where, for instance, a sharp rise in interest rates is expected and so borrowing early at fixed interest rates will be economically beneficial. A cautious approach to any such borrowing will be adopted, however where there is a clear business case for doing so borrowing may be undertaken to fund the approved capital programme or to fund future debt maturities.

3.3.2 Full consideration will be given to balancing investment risks, such as the credit and interest risk resulting from the temporary investment of the sums, against the risk of adverse interest rate movements in addition to the existing debt maturity profile over the medium term.

3.3.3 As required by The Investment Regulations (Code on the Investments of Money by Scottish Local Authorities) which came into force on 1 April 2010 the Council will appraise all risks associated with advance borrowing activity. The Council will fully document the justification for the decision prior to the activity being undertaken, with subsequent reporting either within the mid-year or annual reporting mechanism.

4. UK, World and Scottish Economy Update and Current Forecasts

UK

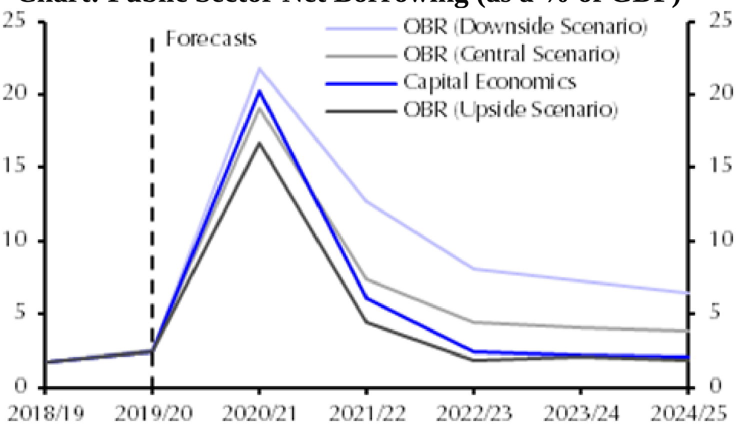
4.1 The Bank of England's Monetary Policy Committee (MPC) kept the Bank Base Rate and quantitative easing (QE) unchanged on 4th February. However, it revised its economic forecasts to take account of a third national lockdown which started on 5th January, which is going to delay economic recovery and do further damage to the economy. Moreover, it had already decided in November to undertake a further tranche of quantitative easing of £150bn, to start in January when the previous programme of £300bn of QE (announced in March to June 2020) finished. As only about £16bn of the latest £150bn tranche had been used towards the end of January, it felt that there was already sufficient provision for QE - which would be made to last to the end of 2021.

Although its short-term forecasts were cut for 2021, the medium-term forecasts were more optimistic than in November, based on an assumption that the current lockdown will be gradually eased after Q1 as vaccines are gradually rolled out and life can then start to go back to some sort of normality. The Bank's main assumptions were that the economy would start to recover strongly from Q3 2021 and:

- £125bn of savings made by consumers during the pandemic will give a significant boost to the pace of economic recovery once lockdown restrictions are eased and consumers can resume high street shopping, going to pubs and restaurants and taking holidays;
- The economy would still recover to reach its pre-pandemic level by Q1 2022 despite a long lockdown in Q1 2021;
- Unemployment will peak at around 7.5% during late 2021 and then fall to about 4.2% by the end of 2022. This forecast implies that 0.5m foreign workers will have been lost from the UK workforce by their returning home;
- CPI inflation was forecast to rise quite sharply towards the 2% target in Q1 2021 due to some temporary factors, (e.g. the reduction in VAT for certain services comes to an end) and given developments in energy prices. CPI inflation was projected to be close to 2% in 2022 and 2023.
- The Monetary Policy Report acknowledged that there were downside risks to their forecasts e.g. from virus mutations, risk of vaccines not being fully effective;
- The Report also mentioned a potential upside risk as an assumption had been made that consumers would only spend £6bn of their savings of £125bn once restrictions were eased. However, the risk is that that consumers could spend a lot more and more quickly;
- The Bank of England also removed negative interest rates as a possibility for at least six months as financial institutions were not yet ready to implement them. As in six months' time the economy should be starting to grow strongly, this effectively means that negative rates occurring are only a slim possibility in the current downturn. However, financial institutions have been requested to prepare for them so that, at a future time, this could be used as a monetary policy tool if deemed appropriate. Gilt yields and PWLB rates jumped upwards after the removal of negative rates as a key risk in the short-term.
- The MPC reiterated its previous guidance that Bank Rate would not rise until inflation was sustainably above 2%. This means that it will tolerate inflation running above 2% from time to time to balance out periods during which inflation was below 2%. This is termed average inflation targeting.

- **Public borrowing** was forecast in November 2020 by the Office for Budget Responsibility (the OBR) to reach £394bn in the current financial year, the highest ever peace time deficit and equivalent to 19% of GDP. In normal times, such an increase in total gilt issuance would lead to a rise in gilt yields, and so PWLB rates. However, the QE done by the Bank of England has depressed gilt yields to historic low levels, (as has similarly occurred with QE and debt issued in the US, the EU and Japan). This means that new UK debt being issued is locking in those historic low levels through until maturity. In addition, the UK has one of the longest average maturities for its entire debt portfolio, of any country in the world. Overall, this means that the total interest bill paid by the Government is manageable despite the huge increase in the total amount of debt. The OBR was also forecasting that the government will still be running a budget deficit of £102bn (3.9% of GDP) by 2025/26. However, initial impressions are that they have taken a pessimistic view of the impact that vaccines could make in the speed of economic recovery. It is now likely that total borrowing will probably reach around £420bn due to further Government support measures introduced as a result of further restrictions and the third national lockdown.

Chart: Public Sector Net Borrowing (as a % of GDP)



(if not in colour…… the key describing each line in the above graph is in sequential order from top to bottom in parallel with the lines in the graph.

- Overall, **the pace of recovery** was not expected to be in the form of a rapid V shape, but a more elongated and prolonged one. The initial recovery was sharp after Q1 2020 saw growth at -3.0% followed by -18.8% in Q2 and then an upswing of +16.0% in Q3; this still left the economy 8.6% smaller than in Q4 2019. While the one month second national lockdown that started on 5th November caused a further contraction of 5.7% m/m in November, this was much better than had been feared and showed that the economy is adapting to new ways of working. This left the economy 'only' 8.6% below the pre-crisis level. However, a strong recovery from a further contraction during Q1 2021 is expected in the second half of 2021 and is likely to mean that the economy recovers to its pre-pandemic level during Q1 2022.

- **Vaccines – the game changer.** The vaccines have significantly boosted confidence that **life could largely return to normal during the second half of 2021**. With the household saving rate having been exceptionally high since the first lockdown in March, there is plenty of pent-up demand and purchasing power stored up for when life returns to normal.

- **Brexit.** The final agreement of a trade deal on 24 December 2020 has eliminated a significant downside risk for the UK economy. The initial agreement only covers trade so there is further work to be done on the services sector where temporary equivalence has been granted in both directions between the UK and EU; that now needs to be formalised on a permanent basis. However, it is evident from problems with trade flows at ports in January and February that work needs to be done to smooth out the issues and problems that have been created by complex customs paperwork, in order to deal with bottle necks currently being caused.

- **US.** Following elections for two senate seats in January, the Democrats now have a majority in the House of Representatives and a very slim majority in the Senate based on the vice president's casting vote. As the Democrats will be dependent on gaining the support of moderate Democrat senators, there will be a limit on just how radical they can be with their legislative and financial programmes. The $900bn fiscal stimulus passed in December will help the economy gain more traction in early 2021. There is a question mark, however, over whether they will be able to get a much bigger $1.9bn fiscal stimulus through both houses, though a smaller package would stand much more chance of being approved. After the Federal Bank unveiled the adoption of a flexible average inflation target in late August 2020, the mid-September meeting agreed by a majority to a toned down version of a new inflation target. This change was aimed to provide more stimulus for economic growth and higher levels of employment and to avoid the danger of getting caught in a deflationary "trap" like Japan. Subsequent meetings of the Fed have projected that inflation will not get back sustainably to above 2% for some years and so the vast majority of officials expect the Fed funds rate to still be at near-zero until 2024 or later.

- **EU.** The economy was recovering well from the first lockdowns towards the end of Q2 and during Q3 after a sharp drop in GDP. However, a second wave of the virus has caused a renewed fall back in growth during Q4. The slow role out of vaccines during Q1 2021 will delay economic recovery. In Q2 of 2020, GDP was 15% below its pre-pandemic level. But in Q3 the economy grew by 12.5% q/q leaving GDP down by "only" 4.4%. That was much better than had been expected earlier in the year. However, growth contracted by another 0.7% in Q4 and is likely to at least stagnate during Q1 of 2021, as a second wave of the virus has seriously affected many countries. The €750bn fiscal support package eventually agreed by the EU after prolonged disagreement between various countries, is unlikely to provide significant support, and quickly enough, to make an appreciable difference in the countries most affected by the first wave.

- **China.** After a concerted effort to get on top of the virus outbreak in Q1, economic recovery was strong in the rest of 2020; this has enabled China to recover all of the contraction in Q1. Policy makers have both quashed the virus and implemented a programme of monetary and fiscal support that has been particularly effective at stimulating short-term growth. At the same time, China's economy has benefited from the shift towards online spending by consumers in developed markets. These factors help to explain its comparative outperformance compared to western economies. However, this was achieved by major central government funding of yet more infrastructure spending.

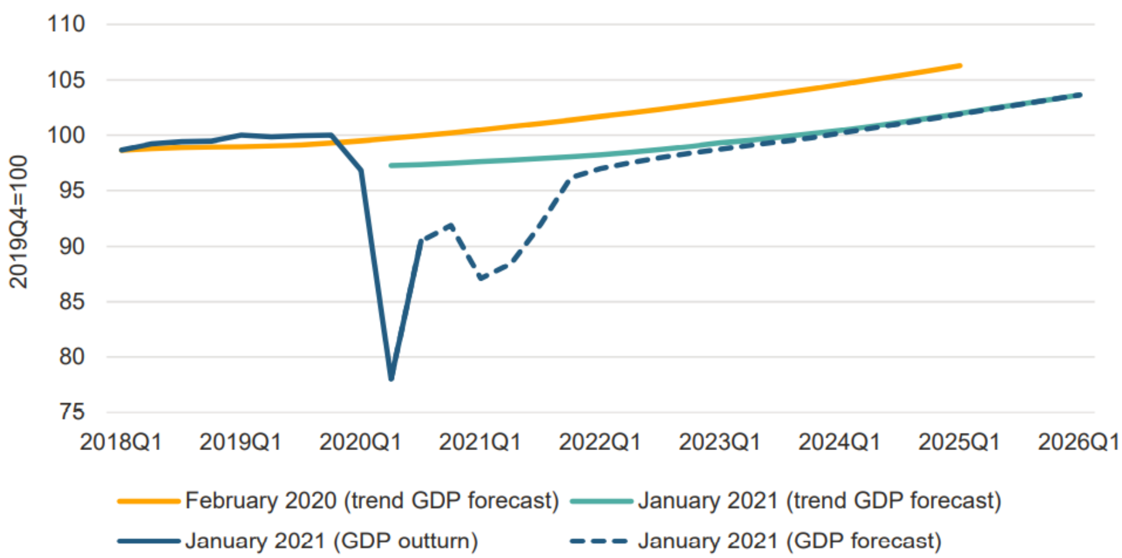
- **World growth.** World growth has been in recession in 2020 and this is likely to continue into the first half of 2021 before recovery in the second half. Inflation is unlikely to be a problem for some years due to the creation of excess production capacity and depressed demand caused by the coronavirus crisis.

- Until recent years, world growth has been boosted by increasing globalisation i.e. countries specialising in producing goods and commodities in which they have an economic advantage and which they then trade with the rest of the world. This has boosted worldwide productivity and growth, and, by lowering costs, has also depressed inflation. However, the rise of China as an economic superpower over the last thirty years, which now accounts for nearly 20% of total world GDP, has unbalanced the world economy. The Chinese government has targeted achieving major world positions in specific key sectors and products, especially high tech areas and production of rare earth minerals used in high tech products. It is, therefore, likely that we are heading into a period where there will be a reversal of world globalisation and a decoupling of western countries from dependence on China to supply products. This is likely to produce a backdrop in the coming years of weak global growth and so weak inflation.

- **Summary -** Central banks are, therefore, likely to support growth by maintaining loose monetary policy through keeping rates very low for longer. Governments could also help a quicker recovery by providing more fiscal support for their economies at a time when total debt is affordable due to the very low rates of interest. They will also need to avoid significant increases in taxation or austerity measures that depress demand and the pace of recovery in their economies.

- **Scotland Specific -** Currently, it is forecast that the latest lockdown will reduce economic activity by 5% in the first quarter of 2021, but that GDP grows by 2% over 2021, 7% in 2022, and recovers to its pre COVID level in 2024. By 2025, GDP is forecast 4% lower than the original forecast in February 2020, as can be seen in Figure 1 below.

Figure 1: Trend and actual Scottish GDP, February 2020 and January 2021



Source: Scottish Fiscal Commission, Scottish Government (2020) First estimate of GDP: 2020 Q3 (link).

- The forecast for 2021 as a whole is for growth of 1.8%, picking up to 7.5% in 2022, mainly fuelled by household consumption as higher-income consumers who accumulated savings during the lockdown months start spending again. In contrast, lower-income households who have been disproportionately affected by the COVID-19 crisis, were less able to save during the pandemic, and may have run down savings or borrowed to cover day-to-day expenses, so at best they can be expected to spend cautiously in order to restore their finances.

- COVID-19 will have long-lasting effects on the Scottish economy. Scottish GDP is not expected to recover to its pre-COVID-19 level until the start of 2024. It is forecast that Scottish GDP in 2025 will still be 4 per cent below where it was expected to be in the February 2020 forecast. The long-term GDP outlook has changed because the assumption that there will be longer-term effects of the pandemic on the Scottish economy. In particular, compared to the previous forecast, it is expected that:

    - Productivity is around 2% lower because of factors such as lower levels of capital investment, global trade and migration during the pandemic, and scarring effects from prolonged unemployment;
    - Labour force participation rates for those aged 16 to 24 are 0.9% lower, in part because the long-term employability of younger people may be reduced by unemployment early in their working lives;
    - The long-run unemployment rate increases from 4.0% to 5.5% in 2020, gradually moving to 4.4% at the start of 2023;
    - The population aged 16 and over is 0.5% lower, mainly because of assumptions regarding COVID-related excess deaths and zero net international migration in the short term.

Figure 2: Headline economy forecasts, growth rates

Per cent	2019	2020	2021	2022	2023	2024	2025
GDP							
February 2020	0.9	1.0	1.1	1.2	1.2	1.2	
January 2021	0.8	-10.7	1.8	7.5	1.6	1.6	1.7
Average nominal earnings							
February 2020	2.8	3.0	3.1	3.2	3.3	3.3	
January 2021 [1]	4.2	2.5	2.6	2.4	2.7	3.0	3.3
Employment							
February 2020	0.4	-0.3	0.1	0.2	0.2	0.2	
January 2021	0.1	-2.4	-1.5	1.2	0.9	0.4	0.2

Source: Scottish Fiscal Commission, Scottish Fiscal Commission (2020) Scotland's Economic and Fiscal Forecasts – February 2020 (link).
Shaded cells refer to outturn available at time of publication.

- The job retention schemes have largely, but not completely, protected the labour market from the economic consequences of the pandemic. Although headline unemployment figures from the Labour Force Survey have remained stable, income tax PAYE Real Time Information (RTI) indicates a decrease in paid employment since last April. There is also a fall in workforce jobs for Scotland and the UK.

- The unemployment rate is expected to peak at 7.6% in 2021 Q2 once the furlough schemes end. Forecasts of employment growth in 2020 and 2021 have been revised downwards to account for the effects of COVID-19 on the labour market. Our forecasts of average nominal earnings growth have been revised down in subsequent years, mainly reflecting lower productivity growth, lower public sector pay growth and higher unemployment compared to our previous forecast. With inflation currently very low, and lower than expected at the time of our previous forecast, real average earnings growth forecasts for 2020 and 2021 have been revised up.

- Another important development is that the UK and EU have reached a free trade agreement which came into effect at the end of the transition period on 1 January 2021. Recent forecasts already incorporated the long-run effects of Brexit on the Scottish economy

5. Prospect for Interest Rates

5.1 The Council has appointed Link Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Table H in Appendix 6 gives the current Link Asset Services central view.

5.2 There are two views in respect of Bank Rate beyond our three-year time horizon:

1. The MPC will be keen to raise Bank Rate as soon as possible in order for it to be a usable tool when the next economic downturn comes along. This is in line with thinking on Bank Rate over the last 20 years; or

2. Conversely, that we need to adjust to the new post-pandemic era that we are now in. In this new era, the shift to average inflation targeting has set a high bar for raising Bank Rate i.e. only when inflation is demonstrably sustainably above 2%. In addition, many governments around the world have been saddled with high levels of debt.

6. Borrowing and Debt Strategy 2021/22 – 2030/31

6.1 At the end of 2019/20 the Council was slightly over-borrowed. Table E in Appendix 6 forecasts that the capital borrowing need (the Capital Financing Requirement) will be almost fully funded with external borrowing which is a mixture of short term and long term debt.

6.2 Against this background and the risk within the economic forecast, caution will be adopted with the 2021/22 treasury operations. The Section 95 Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

6.3 If it was felt that there was a significant risk of a further fall in long and short term rates, e.g. due to a marked increase of risks around recession or of risks of deflation, then long term borrowing will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

6.4 If it was felt that there was a significant risk of a much sharper rise in long and short term rates than that currently forecast, perhaps arising from a greater than expected increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates were still relatively cheap.

6.5 Following PWLB increasing its interest rates by 1% on 9 October 2019 with many local authorities now viewing PWLB as a lender of last resort, a further review saw a reduction in PWLB by 1% on 26 November 2020.

6.6 Any decisions will be reported to Members via the Members Bulletin at the next available opportunity.

6.7 Approved sources of long and short term borrowing include:

	Fixed	**Variable**
PWLB	X	X
Local Authorities	X	X
Banks	X	X
Pension Funds	X	X
Insurance Companies	X	X
Market – long term	X	X
Market – short term	X	X
Market – LOBOs	X	X
Overdraft	X	X
Internal (capital receipts / revenue balances)	X	X
Finance Leases	X	X

7. Investment Strategy

7.1 The Council's investment policy has regard to the Local Government Investment (Scotland) Regulations (and accompanying finance circular). Council had also adopted both the Treasury Management Code of Practice and the Prudential Code and is required to adopt the revised editions. The day to day investment policies and practices are contained in the Council's Treasury Management Practices, which reflect the requirements of these codes. These practices are regularly reviewed.

7.2 **Key Objectives** – Following the economic background above, the current investment climate has one over-riding risk consideration - counterparty security risk. As a result of these underlying concerns, officers are implementing an operational investment strategy which tightens the controls already in place in the approved investment strategy. The Council's investment strategy primary objectives are safeguarding the re-payment of the principal and interest of its investments on time first and ensuring adequate liquidity second – the investment return being a third objective. After this main principle the Council will ensure:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security; and

- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

7.2.1 In accordance with the above, and in order to minimise the risk to investments, the Council has below clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings, outlooks and watches published by all three ratings agencies with a full understanding of what these reflect in the eyes of each agency. Using the Link Asset Services ratings service banks' ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.

7.2.2 Further, the Council's officers recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as "Credit Default Swaps" and overlay that information on top of the credit ratings. This is fully integrated into the credit methodology provided by the advisors, Link Asset Services in producing its colour codings which show the varying degrees of creditworthiness.

7.2.3 Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

7.2.4 The aim of the strategy is to generate a list of highly creditworthy counterparties which will enable diversification, and thus avoidance of concentration, with the prime intention of providing security of investment and minimisation of risk.

7.3 **Investment Strategy** – The process for investment strategy under the regulations covers a wide range of Council investments and will be broadly managed in the following way:

- Short Term Cash – Cash relating to day to day cash flow will be maintained on a shorter term basis in cash type products with consideration to the liquidity requirements outlined above.

- Longer Term Cash – Cash relating to reserves, provisions and balances on the balance sheet may be held for longer periods of time in cash type products or in longer term bonds or funds depending on:

    - Cash flow requirements:
    - The underlying expectation for interest rates; and
    - The economic background of these investments may be held longer term.

- Service Type Investments – These types of investments will predominately be policy driven and approved by Members. Shareholdings, development opportunities, loans to third parties, equity instruments and investment properties held for rental returns) will be regularly reviewed to judge the investment performance.

- Non Service Type Investments – Investments such as Joint venture delivery companies such as Hub West Scotland and investments in regeneration partnerships and development opportunities

7.4 **Benchmarking and Monitoring Security, Liquidity and Yield in the Investment Service**
A development for Member reporting is the consideration and approval of security and liquidity benchmarks. Yield benchmarks are currently widely used to assess investment performance. Discrete security and liquidity benchmarks are additional new requirements to the Member reporting.

7.4.1 These benchmarks are targets (not limits) and so may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy depending on any changes. Any breach of the benchmarks will be reported, with supporting reasons in the Mid-Year or Annual Report.

7.4.2 In the context of benchmarking, assessing security is a very subjective area to assess. Security is currently evidenced by the application of minimum quality criteria to investment counterparties, primarily through the use of credit ratings supplied by the three main credit rating agencies (Fitch/ Moody's and Standard and Poors). Whilst this approach embodies security considerations, benchmarking levels of risk is more problematic. One method to benchmark security risk is to assess the historic level of default against the minimum criteria used in the Council's investment strategy. Table I in Appendix 6 shows average defaults for differing periods of investment grade products for each Fitch/ Moody's Standard and Poors long term rating category.

7.4.3 The Council's minimum long term rating criteria is currently "A-", meaning the average expectation of default for a one year investment in a counterparty with a "A" long term rating would be 0.05% of the total investment (e.g. for a £1m investment the average loss would be £500). This is only an average - any specific counterparty loss is likely to be higher - but these figures do act as a proxy benchmark for risk across the portfolio.

7.4.4 As required by the CIPFA Treasury Management Code of Practice The Council will "ensure that it has adequate, though not excessive, cash resources, borrowing arrangements, overdrafts or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives". In respect to liquidity as defined above the Council seeks to maintain:

- Bank overdraft - £1.000m; and
- Liquid short term deposits of at least £5m available on an overnight basis.

7.4.5 Local measures of yield investment benchmarks that will be used to assess returns are:

- Internal returns above the 7 day LIBID rate;
- Internal returns above the 1 month LIBID rate for fixed investments; and
- Internal returns above the Council's instant access account.

7.5 Council Permitted Investments – The Investments Regulations (Code on the Investment of Money by Scottish Local Authorities) requires Council approval of all the types of investment to be used and set appropriate limits for the amount that can be held for each investment type. These types of investment are termed permitted investments and any investments used which have not been approved as a permitted investment will be considered ultra vires.

7.5.1 The permitted investments which may be used in the forthcoming year are noted below. Details of the risks, mitigating controls and limits associated with each of these permitted categories are shown in Appendix 3.

- **Cash Type Instruments**
  - Deposits with the Debt Management Account Facility (UK Government);
  - Deposits with other local authorities or public bodies;
  - Money Market Funds
    - Constant Net Asset Value
    - Low Volatility Net Asset Value;
  - Call accounts, deposit accounts with financial institutions (banks and building societies;
  - Term deposits with financial institutions (banks and building societies);
  - UK Government Gilts and Treasury Bills;

- Certificates of deposits will financial institutions (banks and building societies); and
- Structured deposit facilities with banks and building societies (escalating rates, de-escalating rates, etc).

- **Other Investments**

  - Investment properties;
  - Loans to third parties, including soft loans;
  - Loans to a local authority company;
  - Shareholding in a local authority company;
  - Non-local authority shareholdings;
  - Joint venture delivery companies such as hub West Scotland;
  - Regeneration partnerships and development opportunities;
  - District Heating Schemes; and
  - Local Authority Mortgage Scheme (LAMS).

7.5.2 Permitted investments related to the Common Good are also shown in Appendix 3, and where applicable the same counterparty selection criteria as noted in 6.6 below will be applied.

7.6 Investment Counterparty Selection Criteria

The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle the Council will ensure:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security; and

- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

7.6.1 The Section 95 Officer will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. This criteria selects which counterparties the Council will choose from, rather than defining what its investments are.

7.6.2 Credit rating type and definitions are attached within Appendices 4 and 6.

7.6.3 Credit rating information is supplied by our treasury consultants on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance a negative rating watch applying to any counterparty at the minimum Council criteria will be suspended from use, with all others being reviewed in light of market conditions.

7.6.4 The criteria for providing a pool of high quality cash type investment counterparties is:

- **Category 1 - Good Credit Quality** – the Council will only use financial institutions (including certificates of deposit and corporate bonds) which:

    - Are UK banks; and/or
    - Are non-UK and domiciled in a country which has a minimum Sovereign long term rating of AA; The UK will be excluded from any Sovereign rating criteria.
    - And have, as a minimum, the following Fitch, Moody's and Standard and Poors (S&P) credit ratings (where rated):
        - Short Term – F1 (or equivalent from Fitch, Moody's and S&P)
        - Long Term – A- (or equivalent from Fitch, Moody's and S&P)

    The difference between the ratings will be reflected in the money limits as noted in Table K in Appendix 6.

- **Category 2 – Part nationalised UK banks** – Lloyds Bank Group and Royal Bank of Scotland Group. These banks can be included if they continue to be part nationalised or they meet the ratings in Category 1 above.

- **Category 3**- **The Council's own banker** for transactional purposes if the bank falls below the above criteria specified in category 1, although in this case balances will be minimised in both monetary size and time.

- **Category 4 - Bank Subsidiary and Treasury Operations –** the Council will use these where the parent bank has the necessary ratings outlined in category 1.

- **Category 5 - Building Societies** – the Council will use all Societies which meet the ratings for banks outlined in category 1.

- **Category 6 - Money Market Funds –** the Council will use either CNAV or LVNAV money market funds that are AAA rated (by at least one of the 3 rating agencies).

- **Category 7 - UK Government** (including gilts, treasury bills and the DMADF)

- **Category 8 - Local Authorities, etc**

7.6.5 Due to the uncertainty in the financial markets it is recommended that the Investment Strategy is approved which will provide officers with the flexibility to deal with any unexpected occurrences. Officers can restrict the pool of available counterparties from these criteria to safer instruments and institutions.

7.6.6 The time limits for institutions on the Council's cash type counterparty list are as noted in Table J in Appendix 6.

7.6.7 The Council's bankers are currently the Clydesdale Bank Plc which falls within Category 3. It is recognised that the money limit of £5million may be breached for purely operational purposes on a temporary overnight basis only. The Chief Officer - Resources will endeavour to avoid this scenario but this allows for circumstances that are outwith the Council's control where funds may be deposited unexpectedly or at short notice into the Council's accounts after the dealing deadline for the day has passed. In such a circumstance the funds will require to be kept on an overnight basis in the Council's bank account until appropriate arrangements can be made for investment.

7.6.8 Table J does not include a monetary limit for category 7 which are funds deposited with the UK Government namely the Debt Management Account Deposit Facility (DMADF). This facility allows local authorities to deposit surplus cash on flexible terms and receive a market related rate of interest. Funds are held by the Bank of England and the scheme carried the Government's own sovereign credit rating offering the highest available security and therefore no maximum monetary limit has been set.

7.6.9 Country and sector considerations - Due care will be taken to consider the country, group and sector exposure of the Council's investments. In part the country selection will be chosen by the credit rating of the Sovereign state in Banks 1 above and the list of approved countries for investments are detailed in Appendix 5. In addition:

- No more than 25% will be placed with any country outside of the UK at any time;
- Limits in place above will apply to Group companies; and
- Sector limits will be monitored regularly for appropriateness.

7.6.10 Use of additional information other than credit ratings – Additional requirements under the Code of Practice now requires the Council to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, negative rating watches/outlooks) will be applied to compare the relative security of differing investment counterparties.

7.6.11 Economic Investment Considerations – Current forecasts on shorter-term interest rates, on which investment decisions are based, show a potential for the current 0.10% Bank Rate remain steady until March 2024. The Council's investment decisions are based on comparisons between the rises priced into market rates against the Council's and advisers own forecasts.

7.6.12 There is an operational difficulty arising from the current economic situation. There is currently little value investing longer term unless credit quality is reduced. Whilst some selective options do provide additional yield uncertainty over counterparty creditworthiness suggests shorter dated investments would provide better security.

7.6.13 The criteria for choosing counterparties set out above provide a sound approach to investment in "normal" market circumstances. Whilst Members are asked to approve this base criteria above, under the exceptional current market conditions the Section 95 Officer (Chief Officer - Resources) may temporarily restrict further investment activity to those counterparties considered of higher credit quality than the minimum criteria set out for approval. These restrictions will remain in place until the banking system returns to "normal" conditions. Similarly the time periods for investments will be restricted.

7.6.14 Examples of these restrictions would be the greater use of the Debt Management Deposit Account Facility (DMADF – a Government body which accepts local authority deposits), Money Market Funds and strongly rated. The credit criteria have been amended to reflect these facilities.

7.7 Sensitivity to Interest Rate Movements - Whilst most of the risks facing the treasury management service are addressed elsewhere in this report (credit risk, liquidity risk, market risk, maturity profile risk), the impact of interest rate risk is discussed but not quantified. Table K in Appendix 6 highlights the estimated impact of a 1% increase/decrease in all interest rates to the estimated treasury management costs/income for next year. That element of the debt and investment portfolios which are of a longer term, fixed interest rate nature will not be affected by interest rate changes.

7.8 **Ethical Investments** - This is the placing of funds and selecting investments in a manner that reflects an authority's ethical values. Generally, two sets of criteria are drawn up – negative and positive values whereby investments are to be avoided or encouraged.

7.8.1 The following policy statement was approved on 25 October 2017:

7.8.2 The Council will not knowingly invest directly in organisations (including financial institutions and money market funds) whose activities and practices pose a risk of serious harm to individuals and/or groups, or whose activities are inconsistent with the Council's vision, values and priorities. This could include avoiding direct investment in organisations with material links to:

- Human rights abuse (e.g. child labour);
- Environmentally harmful activities (e.g. destruction of habitat); and
- Socially harmful activities (e.g. gambling)

7.8.3 In order to give effect to its commitment to this policy the Chief Officer - Resources contacted all investment counterparties on 9 January 2018 advising of our policy.

7.8.4 In accordance with the further commitments that were given in October 2017 it is considered that this policy statement remains relevant and does not require to be amended at this time.

8. Treasury Management Limits on Activity

8.1 There are four further treasury activity limits, which were previously prudential indicators. The purpose of these prudential indicators is to contain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of an adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs.

- *Upper limits on variable interest rate exposure* – This indicator identifies a maximum limit for variable interest rates based upon the debt position net of investments

- *Upper limits on fixed interest rate exposure* – Similar to the previous indicator this covers a maximum limit on fixed interest rates.

- *Maturity structures of borrowing* – These limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

- *Total principal funds invested for greater than 364 & 365 days* - These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

The proposed indicators are shown within Table L in Appendix 6.

8.2 The upper limit applies to the maturity structure of fixed interest rate borrowing in Table M. The level has been set to take account of the way that local authorities have to record certain market loans where the maturity date is deemed to be the next call date rather than the eventual repayment date.

9. Performance Indicators

9.1 The Code of Practice on Treasury Management requires the Council to set performance indicators to assess the adequacy of the treasury function over the year. These are distinct historic indicators, as opposed to the prudential indicators, which are predominantly forward looking. Examples of performance indicators often used for the treasury function are:

- Debt – Borrowing - Average rate of borrowing for the year compared to average available;
- Debt – Average rate movement year on year; and
- Investments – Internal returns above the 7 day LIBID rate.

9.2 The results of these indicators will be reported in the Treasury Annual Report for 2020/21.

10. Treasury Management Advisors

10.1 The Council uses Link Asset Services as its treasury management advisors. The company provides a range of services which include:

- Technical support on treasury matters, capital finance issues and the drafting of Member reports;
- Economic and interest rate analysis;
- Debt services which includes advice on the timing of borrowing;
- Debt rescheduling advice surrounding the existing portfolio;
- Generic investment advice on interest rates, timing and investment instruments; and
- Credit ratings/market information service comprising the three main credit rating agencies.

10.2 The current treasury advisor contract was awarded to Link Asset Services following a quick quote exercise and commencing on 1 May 2018 until 30 April 2021. A procurement exercise is currently underway with a new contract from 1 May 2021.

10.3 The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not place upon external service providers.

10.4 The Council also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value is assessed are properly agreed and documented, and subjected to regular review.

10.5 Whilst the advisers provide support to the internal treasury function the final decision on treasury matters remains with the Council.

11. The Monitoring of Investment Counterparties

11.1 The credit rating of counterparties will be monitored regularly. The Council receives credit rating information (changes, rating watches and rating outlooks) from Link Asset Services as and when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Chief

Officer - Resources and, if required, new counterparties which meet the criteria will be added to the list.

West Dunbartonshire Council and Common Good Funds Permitted Investments, Associated Controls and Limits

Type of Investment	Treasury Risks	Mitigating Controls	Council and Common Good Limits
Cash Type Instruments			
Deposits with the Debt Management Account Facility (UK Government) (**Very low risk**)	This is a deposit with the UK Government and as such counterparty and liquidity risk is very low, and there is no risk to value. Deposits can be between overnight and 6 months.	Little mitigating controls required. As this is a UK Government investment the monetary limit is unlimited to allow for a safe haven for investments.	As shown in Table J.
Deposits with other local authorities or public bodies **(Very low risk)**	These are considered quasi UK Government debt and as such counterparty risk is very low, and there is no risk to value. Liquidity may present a problem as deposits can only be broken with the agreement of the counterparty, and penalties can apply. Deposits with other non-local authority bodies will be restricted to the overall credit rating criteria.	Little mitigating controls required for local authority deposits, as this is a quasi UK Government investment. Non- local authority deposits will follow the approved credit rating criteria.	As shown in Table J.
Money Market Funds (MMFs) **(Very low risk)**	Pooled cash investment vehicle which provides very low counterparty, liquidity and market risk. These will primarily be used as liquidity instruments.	Funds will only be used where the MMFs has an “AAA” rated status from either Fitch, Moody’s or Standard and Poor’s.	As shown in Table J.
Call account deposit accounts with financial institutions (banks and building societies) **(Low risk depending on credit rating)**	These tend to be low risk investments, but will exhibit higher risks than the first three categories above. Whilst there is no risk to value with these types of investments, liquidity is high and investments can be returned at short notice.	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody’s and Standard and Poors. On day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence.	As shown in Table J.

Type of Investment	Treasury Risks	Mitigating Controls	Council and Common Good Limits
Term deposits with financial institutions (banks and building societies) **(Low to medium risk depending on period & credit rating)**	These tend to be low risk investments, but will exhibit higher risks than the first three categories above. Whilst there is no risk to value with these types of investments, liquidity is low and term deposits can only be broken with the agreement of the counterparty, and penalties may apply.	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poors. On day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence.	As shown in Table J.
Government Gilts and Treasury Bills **(Very low risk)**	These are marketable securities issued by the UK Government and as such counterparty and liquidity risk is very low, although there is potential risk to value arising from an adverse movement in interest rates (no loss if these are held to maturity.	Little counterparty mitigating controls are required, as this is a UK Government investment. The potential for capital loss will be reduced by limiting the maximum monetary and time exposures.	As shown in Table J.
Certificates of deposits with financial institutions **(Low risk)**	These are short dated marketable securities issued by financial institutions and as such counterparty risk is low, but will exhibit higher risks than the first three categories above. There is risk to value of capital loss arising from selling ahead of maturity if combined with an adverse movement in interest rates. Liquidity risk will normally be low.	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poors. On day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence.	As shown in Table J.

Type of Investment	Treasury Risks	Mitigating Controls	Council and Common Good Limits
Structured deposit facilities with banks and building societies (escalating / de-escalating rates, etc.) **(Low to medium risk depending on period & credit rating)**	These tend to be medium to low risk investments, but will exhibit higher risks than the first three categories above. Whilst there is no risk to value with these types of investments, liquidity is very low and investments can only be broken with the agreement of the counterparty (penalties may apply).	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poors. On day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence.	As shown in Table J.
Corporate Bonds **(Medium to high risk depending on period & credit rating)**	These are marketable securities issued by financial and corporate institutions. Counterparty risk will vary and there is risk to value of capital loss arising from selling ahead of maturity if combined with an adverse movement in interest rates. Liquidity risk will be low	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poors. Corporate bonds will be restricted to those meeting the base criteria. On day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence.	As shown in Table J.
Other Types of Investments			
Investment properties	These are properties that are not used to facilitate service delivery but are held solely to earn rentals or for capital appreciation or both. These are highly illiquid assets with high risk to value (the potential for property prices to fall or for rental voids).	In larger investment portfolios some small allocation of property based investment may counterbalance/compliment the wider cash portfolio. Property holding will be re-valued regularly and reported annually with gross and net rental streams.	The Section 95 Officer will determine monetary and time limits managing risk accordingly, to the maximum total as noted in Table L of £7m.

Type of Investment	Treasury Risks	Mitigating Controls	Council and Common Good Limits
Loans to third parties, including soft loans	These are service investments either at market rates of interest or below market rates (soft loans). These types of investments may exhibit credit risk and are likely to be highly illiquid.	Each third party loan requires Member approval and each application is supported by the service rational behind the loan and the likelihood of partial or full default.	The Section 95 Officer will determine monetary and time limits managing risk accordingly, to the maximum total as noted in Table L of £7m.
Loans to a local authority company	These are service investments either at market rates of interest or below market rates (soft loans). These types of investments may exhibit credit risk and are likely to be highly illiquid.	Each loan to a local authority company requires Member approval and each application is supported by the service rational behind the loan and the likelihood of partial or full default.	The Section 95 Officer will determine monetary and time limits managing risk accordingly, to the maximum total as noted in Table L of £7m.
Shareholdings in a local authority company	These are service investments which may exhibit market risk and are likely to be highly illiquid.	Each equity investment in a local authority company requires Member approval and each application will be supported by the service rational behind the investment and the likelihood of loss.	The Section 95 Officer will determine monetary and time limits managing risk accordingly, to the maximum total as noted in Table L of £7m.
Non-local authority shareholdings	These are non-service investments which may exhibit market risk, be only considered for longer term investments, likely to be liquid.	Any non-service equity investment will require separate Member approval and each application will be supported by rational behind the service the investment and the likelihood of loss.	The Section 95 Officer will determine monetary and time limits managing risk accordingly, to the maximum total as noted in Table L of £7m.

Type of Investment	Treasury Risks	Mitigating Controls	Council and Common Good Limits
Joint venture delivery companies such as hub West Scotland	Public sector organisations across a hub territory will work in partnership with each other, and a private sector delivery partner, in a joint venture delivery company called hub West Scotland. .	Any investment in hub West Scotland requires approval from the Section 95 Officer (Chief Officer - Resources) and the Chief Executive in consultation with the Leader of the Council and the Leader of the Opposition and each application will be supported by the service rational behind the investment and the likelihood of loss.	The Section 95 Officer will determine monetary and time limits managing risk accordingly, to the maximum total as noted in Table L of £7m.
Regeneration partnerships and development opportunities	Investments undertaken with the prime intention of local area regeneration.	Any investment in a regeneration partnership / development opportunity requires Member approval with each application supported by rational behind the investment and the likelihood of loss.	The Section 95 Officer will determine monetary and time limits managing risk accordingly, to the maximum total as noted in Table L of £7m.
Investment in Projects procured and managed by third parties e.g. District Heating Schemes	Investments undertaken to assist in facilitating third party projects where the Council has an interest in the successful outcome of the project. Expectation of a financial return for the Council.	Any investment in such projects requires Member approval and each application will be supported by a business case for the investment and the expectation of a financial benefit to the Council.	The Section 95 Officer will determine monetary and time limits managing risk accordingly, to the maximum total as noted in Table L of £7m.
Local Authority Mortgage Scheme (LAMS)	These are service investments at market rates of interest. Under this scheme the Council is required to place funds for a number of years with the bank which is participating in this scheme	Any investment in the LAMS requires Member approval and each application will be supported by the service rational behind the investment and the likelihood of loss.	The Section 95 Officer will determine monetary and time limits managing risk accordingly, to the maximum total as noted in Table L of £7m.

Type of Rating	Rating	Explanation
Fitch -Short Term	F1+	Indicates exceptionally strong capacity for timely payment of financial commitments
	F1	Indicates strong capacity for timely payment of financial commitments
Fitch - Long Term	AA-	Indicates very strong capacity for timely payment of financial commitments and this capacity is not significantly vulnerable to foreseeable events
	A-	Indicates strong capacity for timely payment of financial commitments. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings
Moody's - Short Term	P-1	Banks based Prime-1 for deposits offer superior credit quality and a very strong capacity for timely payment of short term deposit obligations
Moody's - Long Term	Aa	Offer excellent credit quality, with susceptibility to long term risks with a vulnerability to greater fluctuations within protective elements
	A	Offer excellent credit quality, but elements suggest a Susceptibility to impairment over the long term
Standard & Poors - Short Term	A-1	Indicates a strong capacity to meet institutions financial commitments. Within this category, certain obligors are design with a plus sign (+). This indicates that the obligor's capacity to meet its financial commitments is EXTREMELY STRONG
Standard & Poors - Long Term	AA-	Indicates strong capacity for timely payment of financial commitments
	A-	Indicates strong capacity for timely payment of financial commitments. This capacity may, nevertheless, be more susceptible to the adverse effects of changes in circumstances or in economic conditions than is the case for higher rated category

West Dunbartonshire Council and Common Good Funds Permitted Investments, Approved Countries for Investments*

Based on lowest available rating

AAA

- Australia
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Canada
- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- France

AA-

- Belgium
- Hong Kong
- Qatar
- U.K.

Please note that this is the list will be updated as required on an ongoing basis

Appendix 6

West Dunbartonshire Council Prudential and Treasury Indicators

Table A - Net Capital Financing Need

General Services and HRA Shown Separately

£000	Forecast 2020/21	Forecast 2021/22	Forecast 2022/23	Forecast 2023/24	Forecast 2024/25	Forecast 2025/26	Forecast 2026/27	Forecast 2027/28	Forecast 2028/29	Forecast 2029/30	Forecast 2030/31
General Services	**43,073**	**47,501**	**43,096**	**60,400**	**30,205**	**27,238**	**17,154**	**13,774**	**13,715**	**13,626**	**13,626**
Financed by:											
Capital receipts	3,209	7,077	1,354	(248)	3,588	2,038	2,818	5,464	698	707	707
Capital grants	14,151	8,265	22,875	15,429	14,947	8,594	8,051	7,121	7,121	7,121	7,121
Revenue	76	0	0	0	0	0	0	0	0	0	0
Other funding	138	49	0	0	0	0	0	0	0	0	0
Net financing need for the year	**25,498**	**32,111**	**18,868**	**45,220**	**11,670**	**16,606**	**6,285**	**1,189**	**5,896**	**5,798**	**5,798**

£000	Forecast 2020/21	Forecast 2021/22	Forecast 2022/23	Forecast 2023/24	Forecast 2024/25	Forecast 2025/26	Forecast 2026/27	Forecast 2027/28	Forecast 2028/29	Forecast 2029/30	Forecast 2030/31
HRA	**46,907**	**49,744**	**42,539**	**38,506**	**31,888**	**23,937**	**14,647**	**15,014**	**15,389**	**15,774**	**16,168**
Financed by:											
Capital receipts	0	0	0	0	0	0	0	0	0	0	0
Capital grants	3,656	4,500	7,057	3,372	2,450	0	0	0	0	0	0
Revenue	7,927	8,320	7,051	7,297	6,814	6,814	5,522	5,362	4,987	4,753	4,114
Other funding	0	96	0	0	0	0	0	0	0	0	0
Net financing need for the year	**35,324**	**36,828**	**28,430**	**27,837**	**22,624**	**17,123**	**9,126**	**9,652**	**10,402**	**11,020**	**12,054**

General Services and HRA Combined

£000	Forecast 2020/21	Forecast 2021/22	Forecast 2022/23	Forecast 2023/24	Forecast 2024/25	Forecast 2025/26	Forecast 2026/27	Forecast 2027/28	Forecast 2028/29	Forecast 2029/30	Forecast 2030/31
General Services	43,073	47,501	43,096	60,400	30,205	27,238	17,154	13,774	13,715	13,626	13,626
HRA	46,907	49,744	42,539	38,506	31,888	23,937	14,647	15,014	15,389	15,774	16,168
Capital Expenditure	**89,980**	**97,245**	**85,635**	**98,906**	**62,093**	**51,175**	**31,801**	**28,788**	**29,104**	**29,400**	**29,794**
Financed by:											
Capital receipts	3,209	7,077	1,354	(248)	3,588	2,038	2,818	5,464	698	707	707
Capital grants	17,807	12,765	29,932	18,801	17,397	8,594	8,051	7,121	7,121	7,121	7,121
Revenue	8,003	8,320	7,051	7,297	6,814	6,814	5,522	5,362	4,987	4,753	4,114
Other funding	138	145	0	0	0	0	0	0	0	0	0
Net financing need for the year	**60,822**	**68,938**	**47,298**	**73,056**	**34,293**	**33,729**	**15,411**	**10,841**	**16,298**	**16,818**	**17,852**

Table B - Capital Financing Requirement

£000	Forecast 2020/21	Forecast 2021/22	Forecast 2022/23	Forecast 2023/24	Forecast 2024/25	Forecast 2025/26	Forecast 2026/27	Forecast 2027/28	Forecast 2028/29	Forecast 2029/30	Forecast 2030/31
Capital Financing Requirement											
CFR – General Services	378,459	404,768	416,969	454,332	458,753	467,266	464,733	457,191	454,708	451,925	447,262
CFR – HRA	272,330	302,507	322,725	341,390	355,881	364,385	364,489	363,308	362,228	361,270	360,991
Total CFR	**650,789**	**707,275**	**739,694**	**795,722**	**814,634**	**831,651**	**829,222**	**820,499**	**816,935**	**813,195**	**808,253**
Movement in CFR	50,050	56,486	32,419	56,027	18,912	17,017	(2,429)	(8,723)	(3,564)	(3,740)	(4,942)

Movement in CFR represented by											
Net financing need for the year (above)	60,822	68,938	47,298	73,056	34,293	33,729	15,411	10,841	16,298	16,818	17,852
Less scheduled debt amortisation and other financing movements	(10,772)	(12,452)	(14,879)	(17,029)	(15,381)	(16,713)	(17,840)	(19,564)	(19,862)	(20,559)	(22,794)
Movement in CFR	**50,050**	**56,486**	**32,419**	**56,027**	**18,912**	**17,017**	**(2,429)**	**(8,723)**	**(3,564)**	**(3,740)**	**(4,942)**

West Dunbartonshire Council Prudential and Treasury Indicators

Table C - Loan Fund Repayment Profile (excluding PPP)

	General Services	HRA	Total
	£000	£000	£000
Under 12 months	2,691	6,562	9,253
2 years to 5 years	14,077	32,020	46,097
6 years to 10 years	23,540	55,647	79,187
11 years to 15 years	32,907	54,509	87,416
16 years to 20 years	35,622	61,142	96,764
21 years to 25 years	32,108	71,649	103,758
26 years to 30 years	31,866	52,439	84,305
31 years to 35 years	39,491	48,605	88,095
36 years to 40 years	48,753	36,445	85,198
41 years to 45 years	17,569	4,433	22,002
46 years to 50 years	18,437	269	18,706
51 years to 55 years	18,906	408	19,315
56 years to 60 years	20,020	609	20,629
60 years plus	100,899	2,879	103,778

Table D - Ratio of Financing Costs to Net Revenue Stream

	Forecast 2020/21	Forecast 2021/22	Forecast 2022/23	Forecast 2023/24	Forecast 2024/25	Forecast 2025/26	Forecast 2026/27	Forecast 2027/28	Forecast 2028/29	Forecast 2029/30	Forecast 2030/31
General Services	9.25%	8.53%	8.98%	9.48%	10.49%	11.04%	11.28%	11.32%	11.11%	11.17%	16.83%
HRA	22.56%	28.07%	31.68%	33.42%	34.40%	36.13%	36.90%	40.47%	41.02%	41.23%	41.20%

Table E - Gross Debt compared to the Underlying Need to Borrow (CFR)

£000	Forecast 2020/21	Forecast 2021/22	Forecast 2022/23	Forecast 2023/24	Forecast 2024/25	Forecast 2025/26	Forecast 2026/27	Forecast 2027/28	Forecast 2028/29	Forecast 2029/30	Forecast 2030/31
External Debt											
Debt at 1 April	509,677	551,579	611,746	647,541	706,711	729,219	750,558	752,845	748,786	748,990	749,049
Adjustment to 2019/20 year end over-borrowed position	(8,880)	0	0	0	0	0	0	0	0	0	0
New Borrowing - CFR	50,782	60,167	35,795	59,171	22,507	21,340	2,286	(4,059)	204	60	(457)
Debt at 31 March	**551,579**	**611,746**	**647,541**	**706,711**	**729,219**	**750,558**	**752,845**	**748,786**	**748,990**	**749,049**	**748,592**
Long Term Liabilities at 1 April	99,942	96,341	92,660	89,284	86,141	82,546	78,223	73,508	68,845	65,077	61,277
Change in Long Term Liabilities	(3,601)	(3,681)	(3,376)	(3,143)	(3,595)	(4,323)	(4,715)	(4,664)	(3,768)	(3,800)	(4,485)
Long Term Liabilities at 31 March	**96,341**	**92,660**	**89,284**	**86,141**	**82,546**	**78,223**	**73,508**	**68,845**	**65,077**	**61,277**	**56,792**
Gross Debt at 31 March	647,920	704,406	736,825	792,852	811,765	828,781	826,353	817,630	814,066	810,326	805,384
Capital Financing Requirement	650,789	707,275	739,694	795,722	814,634	831,651	829,222	820,499	816,935	813,195	808,253
Under / (Over) Borrowing	**2,869**	**2,869**	**2,869**	**2,869**	**2,869**	**2,869**	**2,869**	**2,869**	**2,869**	**2,869**	**2,869**

West Dunbartonshire Council Prudential and Treasury Indicators

Table F - Operational Boundary

£000	Forecast 2020/21	Forecast 2021/22	Forecast 2022/23	Forecast 2023/24	Forecast 2024/25	Forecast 2025/26	Forecast 2026/27	Forecast 2027/28	Forecast 2028/29	Forecast 2029/30	Forecast 2030/31
External Debt	606,738	672,922	712,296	777,384	802,142	825,615	828,130	823,665	823,890	823,955	823,452
Long Term Liability	105,975	101,926	98,213	94,755	90,801	86,045	80,859	75,729	71,584	67,404	62,471
Total	**712,713**	**774,848**	**810,509**	**872,139**	**892,942**	**911,661**	**908,989**	**899,394**	**895,474**	**891,360**	**885,923**

Table G - Authorised Limit

£000	Forecast 2020/21	Forecast 2021/22	Forecast 2022/23	Forecast 2023/24	Forecast 2024/25	Forecast 2025/26	Forecast 2026/27	Forecast 2027/28	Forecast 2028/29	Forecast 2029/30	Forecast 2030/31
External Debt	661,896	734,096	777,050	848,055	875,064	900,671	903,415	898,544	898,789	898,860	898,311
Long Term Liability	115,609	121,192	117,141	113,369	109,055	103,868	98,210	92,613	88,092	83,532	78,150
Total	**777,505**	**855,288**	**894,191**	**961,424**	**984,119**	**1,004,539**	**1,001,625**	**991,157**	**986,881**	**982,392**	**976,462**

Table H - Interest Rate Forecast

Link Asset Services Interest Rate View	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
Bank Rate	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%
5yr PWLB Rate	0.90%	0.90%	0.90%	0.90%	1.00%	1.00%	1.10%	1.10%	1.10%	1.20%	1.20%	1.20%	1.20%
10yr PWLB Rate	1.30%	1.30%	1.30%	1.30%	1.40%	1.40%	1.50%	1.50%	1.50%	1.60%	1.60%	1.60%	1.60%
25yr PWLB Rate	1.90%	1.90%	1.90%	1.90%	2.00%	2.00%	2.10%	2.10%	2.10%	2.20%	2.20%	2.20%	2.20%
50yr PWLB Rate	1.70%	1.70%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	1.90%	2.00%	2.00%	2.00%	2.00%

Table I - Historic Risk of Default

Long term rating	1 year	2 years	3 years	4 years	5 years
AAA	0.04%	0.10%	0.17%	0.26%	0.35%
AA	0.02%	0.04%	0.09%	0.16%	0.24%
A	0.05%	0.15%	0.27%	0.40%	0.55%
BBB	0.15%	0.40%	0.70%	1.05%	1.41%
BB	0.65%	1.84%	3.22%	4.60%	5.84%
B	2.76%	6.66%	10.26%	13.35%	15.82%
CCC	18.96%	26.64%	31.60%	35.08%	37.88%

Note - The AAA default risk is actually higher than the AA default risk due the number of AAA rated institutions left

West Dunbartonshire Council Prudential and Treasury Indicators

Table J - Counterparty Limits

Investment Category	Fitch (or equivalent)	Money Limit	Time Limit
1	F1+ / AA-	£10million	364 days
	F1 / A-	£5 million	
2	F1/A-	£10 million (per group)	364 days
3		£5 million	Overnight
4		£5 million	364 days
5	As in 1 above	£10million and £5million	364 days
6	Sector Limit	£25 million	Very liquid no time limit applies
	Fund Limit	£5 million	
7		No limit	6 months
8	Sector imit	£25 million	364 days
	Fund Limit	£5 million	

Table K - Sensitivity to Interest Rate Movements

£000	2021/22 Estimate	1%	-1%
Variable Rate Debt Payments	N/A	N/A	N/A
Variable Rate Investment income	75	150	(75)

West Dunbartonshire Council Prudential and Treasury Indicators

Table L- Treasury Management Limits on Activity

	2021/22 Upper	2022/23 Upper	2023/24 Upper
Limits on fixed interest rates	100%	100%	100%
Limits on variable interest rates	50%	50%	50%

Maturity Structure of fixed interest rate borrowing						
	Lower	**Upper**	**Lower**	**Upper**	**Lower**	**Upper**
Under 12 months	0%	50%	0%	50%	0%	50%
12 months to 2 years	0%	50%	0%	50%	0%	50%
2 years to 5 years	0%	50%	0%	50%	0%	50%
5 years to 10 years	0%	50%	0%	50%	0%	50%
10 years to 20 years	0%	50%	0%	50%	0%	50%
20 years to 30 years	0%	50%	0%	50%	0%	50%
30 years to 40 years	0%	50%	0%	50%	0%	50%
40 years to 50 years	0%	100%	0%	100%	0%	100%
50 years to 60 years	0%	100%	0%	100%	0%	100%
60 years to 70 years	0%	100%	0%	100%	0%	100%
Principal sums invested > 364 & 365 days	£nil	£7m	£nil	£7m	£nil	£7m

WEST DUNBARTONSHIRE COUNCIL

Report by Chief Officer – Resources

Audit Committee: 17 November 2021

Subject: Internal Audit Plans 2020/21 and 2021/22 – Progress to 18 October 2021

1. Purpose

1.1 The purpose of this report is to advise Members of progress at 18 October 2021 against the Internal Audit Plans for 2020/21 and 2021/22.

1.2 The report also advises Members of:

- Recently issued Internal Audit reports and action plans; and
- Status of implementation progress relating to action plans from previously issued Internal Audit reports.

2. Recommendations

2.1 It is recommended that Members note the contents of this report.

3. Background

3.1 The annual audit plans for 2020/21 and 2021/22 were approved by the Audit Committee on 17 June 2020 and 10 March 2021 respectively. This report provides information on the progress in implementing the plans.

3.2 When audit reports are issued by Internal Audit, an action plan is agreed with management in relation to issues highlighted by the audit report. Progress on implementing the actions is monitored by Internal Audit on a monthly basis and regularly reported to the Audit Committee.

4. Main Issues

4.1. The annual audit plan sets out the audit coverage for the year utilising available staff resources to enable the Shared Service Manager – Audit & Fraud to provide the annual internal audit opinion regarding the adequacy and effectiveness of internal control within the Council.

4.2 A new risk-based audit methodology was implemented during 2020/21. For each audit, one of 4 audit opinions is expressed:

Strong	In our opinion there is a sound system of internal controls designed to ensure that the organisation is able to achieve its objectives.
Satisfactory	In our opinion isolated areas of control weakness were identified which, whilst not systemic, put some organisation objectives at risk.

Requires Improvement	In our opinion systemic and/or material control weaknesses were identified such that some organisation objectives are put at significant risk.
Unsatisfactory	In our opinion the control environment was considered inadequate to ensure that the organisation is able to achieve its objectives.

4.3 Detailed findings and recommendations reported to management are graded using the following criteria:

Red	In our opinion the control environment is insufficient to address the risk and this could impact the Council as a whole. Corrective action must be taken and should start immediately. Overseen to completion by Corporate Management Team.
Amber	In our opinion there are areas of control weakness which we consider to be individually significant but which are unlikely to affect the Council as a whole. Corrective action must be taken (some exceptions may be agreed with Internal Audit) within reasonable timeframe. Overseen to completion by Chief Officer/Head of Service.
Green	In our opinion the risk area is well controlled or our audit highlighted areas for minor control improvement and/or areas of minor control weakness. Process improvements/efficiencies may be actioned at management discretion in consultation with Internal Audit. Managed by service owner. Not reported in Audit Committee papers.

4.4 No audits have been finalised since the Audit Committee meeting in September 2021.

4.5 The 2020/21 Annual Audit Plan is almost complete and current status is as follows:

Stage	**Number of Audits**
Final Report	6
Draft Report	2
Fieldwork Complete	0
Fieldwork	0
Planning	0
Deferred to 21/22	3
B/f 19/20 Audits completed in 20/21	5
Total	**16**

4.6 The detailed Annual Audit Plan progress to 18 October for the 2020/21 annual audit plans is set out at Appendix 1. Due to unanticipated sickness absence and other priority work the remaining 2 audits were not able to be fully completed by end September. Fieldwork for the remaining 2 audits has now been completed and draft reports are being prepared for management. There are no significant issues arising from these reviews which have an impact on the Annual Governance Statement for 2020-21.

4.7 The 2021/22 Annual Audit Plan is underway and current status is as follows:

Stage	Number of Audits
Final Report	0
Draft Report	0
Fieldwork Complete	0
Fieldwork	1
Planning	2
Not Started	8
B/f 20/21 Audits completed in 21/22	5
Total	**16**

4.8 In relation to audit work for IJB, 2 audits are being planned and reports will be provided to management and reported to HSCP Board Audit and Performance Committee.

4.9 In relation to the Valuation Joint Board, planning is underway for the audit work that will be carried out during 2021/22.

4.10 In relation to the Leisure Trust, planning is underway for the audit work that will be carried out during 2021/22.

4.11 The detailed Annual Audit Plan progress to 18 October for the 2021/22 annual audit plans is set out at Appendix 2.

4.12 Internal and External Audit Action Plans
In relation to audit action plans, these are monitored by Internal Audit on a monthly basis. There were 2 actions due for completion by the end of September, one of which has been implemented and the completion date in relation to the other action has been revised.

Work is ongoing with services to ensure action plan dates agreed are realistic. The status report at 30 September 2021 is provided at Appendix 3.

In relation to external audit action plans, actions arising from the 2019-2020 Audit have been reviewed by Audit Scotland as part of their 2020/21 Annual Audit Plan, which was presented to Audit Committee on 10 March 2021. The implementation status of these actions will be included in their Annual Report for 2020/21 which is included as a separate report to this meeting of the Audit Committee.

4.13 The Council's Internal Audit function follows the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) effective April 2013 (updated April 2017) which includes:

- Definition of Internal Auditing;
- Code of Ethics;
- Attribute Standards (responsibility, independence, proficiency, quality); and
- Professional Standards (managing activity, nature of work, engagement planning, performing the engagement, communicating results, monitoring progress, risk management).

Ongoing Corporate Fraud Team Work

4.14 From 1 April to 30 September 2021, the Corporate Fraud team's day to day work has resulted in actual recoveries, charges and re-billings as detailed below, against an annual target of £225,000.

Description	Amount (£)
Council Tax Reduction	32,673
Council Tax Single Person's Discount	20,128
National Fraud Initiative	22,669
J/W Housing Benefit/Council Tax Reduction	0
Non DWP Housing Benefit	81,462
Non DWP Council Tax Reduction	420
Administrative Penalty	1,260
Total	**£158,612**

4.15 The Internal Audit Team and the Corporate Fraud Team continue to work together as appropriate in order to ensure a joined-up approach to fraud investigation and detection.

National Fraud Initiative

4.16 The National Fraud Initiative (NFI) is a series of biennial exercises run by the Cabinet Office and Audit Scotland to identify or prevent fraud and error by matching electronic data held by public bodies. Participating bodies are required to investigate data discrepancies within a timescale and report back on any savings.

4.17 The most recent biennial exercise for 2020/21 was released data to Councils in January 2021 providing matched datasets for organisations to investigate. There is an expectation that organisations would examine all "High Risk" matches and a proportion of the other matches too. WDC applies a risk-based approach to the NFI matches in the medium and low risk categories.

4.18 Services are progressing with investigations and a status report on the 2020/21 exercise will be provided to the March 2022 meeting of the Audit Committee.

Benchmarking

4.19 In accordance with the Council's Strategic Improvement Framework, services should undertake benchmarking activity with the equivalent function in other Councils. Therefore, WDC Internal Audit has entered into a benchmarking group which involves seven other Councils, these being:

- Argyll and Bute;
- Clackmannanshire;
- East Dunbartonshire;
- Falkirk;
- West Lothian;
- Inverclyde; and
- Stirling.

4.19 Regular meetings continue to take place during 2021 to review performance against agreed performance indicators and identify other areas for sharing of best practice. Relevant action will be taken where improvements are identified. The outcome of this review will be reported to Committee when completed.

5. People Implications

5.1 There are no people implications.

6. Financial and Procurement Implications

6.1 As a result of Corporate Fraud Team activity, actual recoveries, charges and re-billings of £158,612 from 1 April to 30 September 2021 have been identified, against an annual target of £225,000. The comparative figure for the same period in the prior year was £178,916.

6.2 There are no procurement implications arising from this report.

7. Risk Analysis

7.1 There is a risk that failure to deliver the Internal Audit Plan would result in an inability to provide a reasonable level of assurance over the Council's system of internal financial control to those charged with governance. The main basis for providing assurance is coverage of the planned risk based systems audits. Every endeavour is made to ensure that no material slippage occurs in risk based audits by concentrating resources on these audits.

8. Equalities Impact Assessment (EIA)

8.1 There are no issues.

9. Consultation

9.1 This report has been subject to consultation with appropriate Chief Officers.

10. Strategic Assessment

10.1 This report relates to strong corporate governance.

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Stephen West
Chief Officer - Resources
Date: 18 October 2021

Person to Contact: Andi Priestman, Shared Service Manager – Audit & Fraud
E-mail: andi.priestman@west-dunbarton.gov.uk

Appendices: 2020-21 Annual Audit Plan – Progress to 18 October 2021 (Appendix 1)
2021-22 Annual Audit Plan – Progress to 18 October 2021 (Appendix 2)
Status of Internal Audit Action Plans to 30 September 2021 (Appendix 3)

Background Papers:	Audit Committee – 17 June 2020: Internal Audit Annual Plan 2020/21 Audit Committee – 10 March 2021: Internal Audit Annual Plan 2021/22 Audit Committee – 21 March 2018: Counter Fraud and Corruption Strategy Internal Audit Reports - Copies available on request
Wards Affected:	All wards

Audit/Status	Not Started	Planning/ TOR	Fieldwork	Fieldwork Complete	Draft Report	Final Report	Date Reported to Audit Committee
Risk –Based Reviews							
LD Services – Financial Monitoring of Contracts	✓						Deferred to 21/22 Plan
IHMS – Inventory Management – Stock Checks		✓	✓	✓	✓	✓	June 2021
Homelessness		✓	✓	✓	✓	✓	September 2021
Management of Rent Arrears		✓	✓	✓	✓	✓	September 2021
OT Waiting Times	✓						Deferred to 21/22 Plan
Clients Account Administration Process		✓	✓	✓	✓		March 2022
Financial Assessment Process	✓						Deferred to 21/22 Plan
Corporate Procurement – up to £50k		✓	✓	✓	✓		March 2022
Roads Costing System Process		✓	✓	✓	✓	✓	March 2021
Pupil Equity Funding		✓	✓	✓	✓	✓	September 2021
Limited Scope Financial System Reviews							
Council Tax – Discounts and Exemptions		✓	✓	✓	✓	✓	November 2020
Other Work							
Integration Joint Board – Internal Audit Service	The IJB internal audit annual plan for 2020/21 was approved in April 2020. Both audits are complete and reported to the HSCP Board Audit and Performance Committee.						
Valuation Joint Board – Internal Audit Service	Two audit reviews were completed. Reports have been issued to management.						
Leisure Trust – Internal Audit Service	Fieldwork in relation to the risk-based review is being finalised. The remaining allocation of audit days was used to undertake a follow up exercise for audit reviews undertaken in prior audit years to provide assurance on the follow up process to the LT Audit Committee. This follow up work is now complete and a status report has been issued to management.						
Covid-19 Post Assurance Review	Not started. New matches from the National Fraud Initiative are still to be received.						
National Fraud Initiative	Matches for the 2020-21 exercise have been received. An update on the exercise will be provided to the March 2022 Audit Committee meeting.						
B/f 2019/2020 Audit Plan Completion	Five audit reports from the 2019/20 audit plan were finalised during 2020/21 including: Social Work – Case Management; Social Work Attendance Management; Housing Voids; Taxi Licensing and Cyber Security.						

Audit/Status	Not Started	Planning/ TOR	Fieldwork	Fieldwork Complete	Draft Report	Final Report	Date Reported to Audit Committee
Risk –Based Reviews							
IHMS – Stock Control		✓	✓				March 2022
LD Services – Financial Monitoring of Contracts (c/f)	✓						June 2022
Building Services	✓						June 2022
OT Waiting Times	✓						June 2022
Financial Assessment Process	✓						June 2022
Corporate Procurement – Supplier Management	✓						June 2022
Overtime	✓						March 2022
Vehicle Tracking System	✓						March 2022
Project Management Arrangements		✓					March 2022
Employee Expenses	✓						June 2022
Limited Scope Financial System Reviews							
Debtors		✓					March 2022
Other Work							
Integration Joint Board – Internal Audit Service	The IJB internal audit annual plan for 2021/22 was approved in April 2021. Two audits are currently being planned and will be reported to the HSCP Board Audit and Performance Committee.						
Valuation Joint Board – Internal Audit Service	The VJB internal audit annual plan for 2021/22 is at planning stage.						
Leisure Trust – Internal Audit Service	The LT internal audit annual plan for 2021/22 is at planning stage.						
Covid-19 Recovery Assurance Work	Ad hoc advice provided on an ongoing basis.						
National Fraud Initiative	Matches for the 2020-21 exercise have been received. An update on the exercise will be provided to the March 2022 Audit Committee meeting. We are still awaiting matches relating to the Business Grants process.						
B/f 2020/2021 Audit Plan Completion	Three audit reports from the 2020/21 audit plan were finalised during 2021/22 including: Rent Arrears, Pupil Equity Funding and Homelessness. Fieldwork in relation to Client Accounts Administration Process and Corporate Procurement – Under £50k is now complete and draft reports have been prepared.						

Appendix 3

REPORT TO AUDIT COMMITTEE ON
STATUS OF INTERNAL AUDIT ACTION PLANS
AT 30 SEPTEMBER 2021

Summary:	**Section 1**	**Summary of Management Actions due for completion by 30/9/2021**
		There were 2 actions due for completion by 30 September 2021, one of which has been reported as completed by management and the completion date in relation to the other action has been revised.
	Section 2	**Summary of Current Management Actions Plans at 30/09/2021**
		At 30 September 2021 there were no audit reports delayed due to management not finalising the action plan within agreed timescales.
	Section 3	**Current Management Actions at 30/09/2021**
		At 30 September 2021 there were 15 current audit action points.
	Section 4	**Analysis of Missed Deadlines**
		At 30 September 2021 there were 12 audit action points where the agreed deadline had been missed.
	Section 5	**Summary of Action Plan Points by Audit Year**

REPORT TO AUDIT COMMITTEE ON
STATUS OF INTERNAL AUDIT ACTION PLAN POINTS
SUMMARY OF ACTION PLANS DUE FOR COMPLETION BY 30.09.2021

SECTION 1

Strategic Area	No. of Actions Due	No. of Actions Completed	Deadline missed Revised date set*	Deadline missed Revised date to be set*
Supply, Distribution and Property	2	1	1	0
Total	**2**	**1**	**1**	**0**

* These actions are included in the Analysis of Missed Deadlines – Section 4

REPORT TO AUDIT COMMITTEE ON
STATUS OF INTERNAL AUDIT ACTION PLAN POINTS
SUMMARY OF CURRENT ACTION PLANS AT 30.09.2021

SECTION 2

CURRENT ACTIONS BY STRATEGIC AREA

HSCP	
Due for completion December 2021	1
Total Actions	**1**
Children and Families	
Due for completion December 2021	4
Total Actions	**4**
Community Health and Care	
Due for completion February 2022	3
Total Actions	**3**
Regulatory and Regeneration	
Due for completion March 2022	1
Total Actions	**1**
Housing and Employability	
Due for completion November 2021	1
Due for completion February 2022	1
Total Actions	**2**
People and Technology	
Due for completion March 2022	1
Total Actions	**1**
Supply, Distribution and Property	
Due for completion December 2021	1
Total Actions	**1**
Education, Learning and Attainment	
Due for completion December 2021	2
Total Actions	**2**
Total current actions:	**15**

REPORT TO AUDIT COMMITTEE ON
STATUS OF INTERNAL AUDIT ACTION PLAN POINTS
CURRENT ACTION PLANS AT 30.09.2021

SECTION 3

Current Internal Audit Action Plans

154. Charging Policy - Non Residential Services (Report Issued May 2019)

Code	Recommendation	Agreed Action	Status	Original Due Date	Due Date	Assigned To	Managed By
T&PSR/IAAP/735	4. Charging Policy As the Community Based Care Charging Policy - Non Residential Services has not been reviewed for at least eight years and as some parts of the policy requires to be more generic and other parts require to be more specific, it is recommended that the policy be fully reviewed and revised. This will therefore provide more clarity, eliminate ambiguity and make it fit for purpose. It is also recommended that all services be included in the review to ensure input from all areas. In addition, once reviewed, the date of the revision should be recorded on the policy to ensure that there is proper version control. (Medium Risk)	A Charging Policy Review Group has been established on 7th Jan with meetings scheduled for every 2 weeks until end of June. The group includes all Heads of Service, the CFO, some Integrated Ops Managers and social care accountant. The draft Terms of Reference were considered at the 2nd meeting and agreement was reached between HoS about seconding a social worker to support the process. The review will consider the impacts of new Carers Act and Free Personal Care for Under 65 as well as Self Directed Support duties. It will also address the current anomalies/inequities between service users and opportunities to maximise charging in the context of the council's Commercialisation Policy – but within COSLA Guidance. Personal care is defined in legislation. A simple "service user guide" to non-residential charges can be added to the website/leaflet for distribution.	On track	31-Aug-2019 30-Sep-2020 31-Mar-2021	31-Dec-2021*	HSCP Heads of Service	Beth Culshaw

165. CM2000 Functionality (Report Issued February 2020)

Code	Recommendation	Agreed Action	Status	Original Due Date	Due Date	Assigned To	Managed By
IAAP/028	Overtime Payment It is recommended that: • all timesheets are checked and agreed to CM2000 system before	We are working with CM2000 to develop a payroll report which will be used as the basis for staff payment. This report will be implemented by September 2020.	On track	30-Nov-2020 31-Mar-	28-Feb-2022*	Richard Heard	Lynne McKnight

Status Key

▶	On track
⬣	Overdue – update required

REPORT TO AUDIT COMMITTEE ON
STATUS OF INTERNAL AUDIT ACTION PLAN POINTS
CURRENT ACTION PLANS AT 30.09.2021

SECTION 3

Code	Recommendation	Agreed Action	Status	Original Due Date	Due Date	Assigned To	Managed By
	being authorised for payment; • where there are instances of non-compliant clock in overtime, appropriate additional authorisation should be obtained. (Low Risk)	In the meantime Admin will do cross checks against clocking in and out. A communication will be issued to all home care staff re compliance and claims for overtime.		2021 31-Jul-2021			
IAAP/029	<u>Implementation of additional CM2000 Functionality</u> a) It is recommended that Management pilot and fully implement the Mileage functionality across the Homecare team within the planned time frame. (Medium Risk)	Mileage Wizard will be rolled out in next six months. This will depend on high compliance.	On track	30-Jun-2020 30-Nov-2020 31-Mar-2021 31-July-2021	28-Feb-2022*	Richard Heard	Lynne McKnight
IAAP/030	<u>Implementation of additional CM2000 Functionality</u> b) It is recommended that Management develop a plan in collaboration with WDC ICT and Payroll to implement the Financial module. (Medium Risk)	We are working with CM2000 to develop a payroll report which will be used as the basis for staff payment. This report will be implemented for testing by September 2020	On track	30-Nov-2020 31-Jan-2021 31-Mar-2021 31-Jul-2021	28-Feb-2022*	Richard Heard	Lynne McKnight

P 171. Social Work - Case Management (Report Issued August 2020)

Code	Recommendation	Agreed Action	Status	Original Due Date	Due Date	Assigned To	Managed By
IAAP/048	<u>3. Children's services – Supervision of casework</u> Senior Social Workers (SSWs) should be required to discuss all cases allocated to Social Workers on a regular basis to ensure that appropriate review is taken of lower priority cases and that no cases remain open which should be closed. Performance management information showing cases which have	Supervision with staff covers a range of issues in addition to discussion about cases. Supervision process requires review and update – can reflect frequency of discussions around cases; consider discussion of a certain number of cases in each supervision session. Explore an improved 'Team around the Child' reviewing	On track	31-Mar-2021	31-Dec-2021*	Annie Ritchie	Jonathan Hinds

Status Key

On track symbol	On track
Overdue symbol	Overdue – update required

REPORT TO AUDIT COMMITTEE ON
STATUS OF INTERNAL AUDIT ACTION PLAN POINTS
CURRENT ACTION PLANS AT 30.09.2021

SECTION 3

Code	Recommendation	Agreed Action	Status	Original Due Date	Due Date	Assigned To	Managed By
	not been updated within a specified period should be obtained to enable SSWs to gain assurance that there are no open cases which are not being actively dealt with. (Medium Risk)	model. Monthly report to managers, Head of Service, HSCP Chief Officer and Council Chief Executive includes breakdown of unallocated cases. Develop management exception report re: cases with no activity recorded for periods of time to provide further scrutiny and assurance.					
IAAP/050	<u>5. Children's Services - Peer review of case files</u> Management should consider what level of peer review is required to ensure that the cases are being recorded adequately and assess how the process can be re established given the current team workloads. (Medium Risk)	Management Team are reviewing peer review processes as part of case file audit and monitoring and how this can inform service redesign. Work has commenced as part of the PACE workstream in respect of children looked after at home. Intention to scale up when capacity is increased.		31-Oct-2020 31-Mar-2021	31-Dec-2021*	Annie Ritchie	Jonathan Hinds
IAAP/052	<u>7. Children's Services - Policies and Procedures</u> Management should review and update the procedures and guidance documents to ensure they provide accurate guidance as to what is required of the social workers. Management should reiterate the importance of all procedures being followed. (Low Risk)	Policies to be reviewed and updated in terms of quality assurance, good practice and service redesign.		31-Mar-2021	31-Dec-2021*	Annie Ritchie	Jonathan Hinds
IAAP/053	<u>8. Children's Services - Performance management information</u> Team Leaders and Senior Social Workers should review the information within the reports and validate the figures being provided. Where necessary a data cleanse process should be carried out to identify open cases which should be closed. The Team Leaders should consider whether the information provided is useful and how they can use it going forward to assist in the planning and review of the work being undertaken within their teams. (Low Risk)	Team Leads and Senior Social Workers to review management information reports and check recording processes to ensure accuracy. As 1b, above Fieldwork managers to review how management reports can support allocation processes and case management planning across teams.		31-Aug-2020 31-Mar-2021 30-Jun-2021	31-Dec-2021*	Annie Ritchie	Jonathan Hinds

Status Key

	On track
	Overdue – update required

REPORT TO AUDIT COMMITTEE ON
STATUS OF INTERNAL AUDIT ACTION PLAN POINTS
CURRENT ACTION PLANS AT 30.09.2021

SECTION 3

172. Taxi Licensing (Report issued October 2020)

Code	Recommendation	Agreed Action	Status	Original Due Date	Due Date	Assigned To	Managed By
IAAP/066	Acceptance of Incomplete/ Inaccurate Application forms In the medium term the licensing team should look to phase out paper based applications completely with all licences being required to be submitted online, with originals of documents presented either in the one stop shops or directly to the licensing team. (High Risk)	Paper copy applications will be available in the medium term and the licensing team will work with the Trade to seek to establish a timetable to remove the ability to apply using paper applications.		31-Mar-2022	31-Mar-2022	Raymond Lynch	Peter Hessett

173. Housing Voids (Report Issued October 2020)

Code	Recommendation	Agreed Action	Status	Original Due Date	Due Date	Assigned To	Managed By
IAAP/079	1.Void Management Policy Review & Update The Void Management Policy 2013 should be reviewed and updated to take account of current working practices following the 2018 restructure of the Housing Operations Service and the introduction is the new Integrated Housing Management System (IHMS) in October 2019. (Medium Risk)	The previous policy had fallen into abeyance, with the strategic direction for voids led by the Housing Improvement Board. Whereas this has led to significant improvements against the key tenets of the historic policy, given the extent of systemic and structural changes it would be beneficial to codify this within a revised policy. This will be developed with new tenant feedback and wider tenant consultation.		31-May-2021	28-Feb-2022*	Edward Thomas	Helen Black; David Lynch; Edward Thomas

Cyber Security (Report issued December 2020)

Code	Agreed Action	Status	Original Due Date	Due Date	Assigned To	Managed By
IAAP/081	**User Education and Awareness Training (Amber)** c) Strategic People and Change Manager will progress the development of reports from ilearn		31-Mar-2021	31-Mar-2022*	Strategic Change and	Chief Officer People and Technology

Status Key

	On track
	Overdue – update required

REPORT TO AUDIT COMMITTEE ON
STATUS OF INTERNAL AUDIT ACTION PLAN POINTS
CURRENT ACTION PLANS AT 30.09.2021

SECTION 3

Code	Agreed Action	Status	Original Due Date	Due Date	Assigned To	Managed By
	which will enable managers to review their teams completion of the ilearn modules and add course to Skills Passport.				People Manager	

Building Services – Stock Checks (Report issued May 2021)

Code	Agreed Action	Status	Original Due Date	Due Date	Assigned To	Managed By
IAAP/090	**Lack of Stock Checks on Building Services Vans (Amber)** The increase in imprest stock held in vehicles is part of the introduction of the IHMS. This allows a reduction in trips to depots to uplift stock items allowing right first time repairs and improved service efficiently. Stock checks of vans will be completed in line with monthly stock checks.	On track	30-Jun-2021 31-Aug-2021 30-Sep-2021	31-Oct-2021*	Building Services Manager	Chief Officer – Supply, Distribution and Property

Rent Arrears (Report issued July 2021)

Code	Agreed Action	Status	Original Due Date	Due Date	Assigned To	Managed By
IAAP/091	**Lack of Meetings to Monitor Levels of Rent Arrears (Amber)** Management will reinstate performance meetings by Ward.	On track	31-Jul-2021	30-Nov-2021*	Rent Arrears Co-ordinator	Chief Officer – Housing and Employability

Status Key

▶	On track
⬣	Overdue – update required

REPORT TO AUDIT COMMITTEE ON
STATUS OF INTERNAL AUDIT ACTION PLAN POINTS
CURRENT ACTION PLANS AT 30.09.2021

SECTION 3

Pupil Equity Fund (Report issued July 2021)

Code	Agreed Action	Status	Original Due Date	Due Date	Assigned To	Managed By
IAAP/095	**Monitoring of procurement spend (Amber)** Management have agreed that when PEF Plans are submitted at the start of each year, a process will be put in place to estimate the value of common spend to the same supplier to reduce the risk of non-compliance with procurement procedures. Educational services plan to use the tracker system already established to assist with this process and will implement consistent use by all schools.	On track	31-Dec-2021	31-Dec-2021	Senior Education Officer	Chief Officer – Learning & Attainment
IAAP/096	**Exit Planning (Amber)** Management have agreed to amalgamate all existing information already shared and any new guidance regarding exit planning into one formalised document.	On track	31-Dec-2021	31-Dec-2021	Senior Education Officer	Chief Officer – Learning & Attainment

Status Key

▶	On track
⬣	Overdue – update required

Report	Agreed Action	Original Due Date	Revised Date	Management Comments
154. Charging Policy - Non Residential Services (May 2019)	**Charging Policy (Medium Risk)** A Charging Policy Review Group has been established on 7th Jan with meetings scheduled for every 2 weeks until end of June. The group includes all Heads of Service, the CFO, some Integrated Ops Managers and social care accountant. The draft Terms of Reference were considered at the 2nd meeting and agreement was reached between HoS about seconding a social worker to support the process. The review will consider the impacts of new Carers Act and Free Personal Care for Under 65 as well as Self Directed Support duties. It will also address the current anomalies/inequities between service users and opportunities to maximise charging in the context of the council's Commercialisation Policy – but within COSLA Guidance. Personal care is defined in legislation. A simple "service user guide" to non-residential charges can be added to the website/leaflet for distribution.	31-Aug-2019 30-Sep-2020 31-Mar-2021	31-Dec-2021	The current Social Care Charging Policy was reviewed during 2020/21 to confirm its compliance with COSLA Guidance as well as undertaking an extensive engagement exercise with service users and stakeholder groups in relation to the current Day Opportunities fixed charge. The feedback from this will be considered alongside the current review into the future model of Day Care Services and any proposed change to the charging structure will be presented to a future HSCP Board meeting with recommendations to be considered by West Dunbartonshire Council as the statutory body with the responsibility to set and levy charges. Day services have been closed throughout 2020/21 (except for some high level support) and the Scottish Government have provided Covid-19 funding to the HSCP to cover the loss of income. It is expected that this will continue into 2021/22. In line with Council's Long Term Financial Strategy current charges will be uplifted by 4% in 2021/22. A report will be presented to HSCP Board in November 2021 and then to Council in December 2021.
165. CM2000 Functionality (February 2020)	**Overtime Payment (Revised to Low Risk)** We are working with CM2000 to develop a payroll report which will be used as the basis for staff payment. This report will be implemented by September 2020. In the meantime Admin will do cross checks against clocking in and out. A communication will be issued to all home care staff re compliance and claims for overtime.	30-Nov-2020 31-Mar-2021 31-Jul-2021	28-Feb-2022 Interim Update	In concert with the national picture care at home continues to be under significant pressure, this is as a result of a complex picture including, the rising rates of covid infection, challenges in terms of absenteeism, recruitment and retention. The service has always benefitted from the mixed economy of service delivery, however as these pressures are mirrored in the independent sector it is becoming increasingly challenging to support the core service with the use of agency workers. Although a project initiation document was agreed on the 14 May 2021, this complex landscape is impacting on the proposed plans to review the service. As such on the 26 August 2021 a phased approach was agreed with Trade Unions colleagues. The initial phase of the service review, which is expected to last approximately 6 months, will focus on compliance with the principles of the Fair Work Framework, specifically in relation to overtime, agency spend, absenteeism, high turnover and compliance with the working time directive.

Report	Agreed Action	Original Due Date	Revised Date	Management Comments
				Meetings have taken place with CM2000 and testing is underway to ensure updated target can be achieved. Additional training is scheduled to commence in November/December to facilitate this.
165. CM2000 Functionality (February 2020)	**Implementation of additional CM2000 Functionality (Medium Risk)** Mileage Wizard will be rolled out in next six months. This will depend on high compliance.	30-Jun-2020 30-Nov-2020 31-Mar-2021 31-Jul-2021	28-Feb-2022 Interim Update	In concert with the national picture care at home continues to be under significant pressure, this is as a result of a complex picture including, the rising rates of covid infection, challenges in terms of absenteeism, recruitment and retention. The service has always benefitted from the mixed economy of service delivery, however as these pressures are mirrored in the independent sector it is becoming increasingly challenging to support the core service with the use of agency workers. Although a project initiation document was agreed on the 14 May 2021, this complex landscape is impacting on the proposed plans to review the service. As such on the 26 August 2021 a phased approach was agreed with Trade Unions colleagues. The initial phase of the service review, which is expected to last approximately 6 months, will focus on compliance with the principles of the Fair Work Framework, specifically in relation to overtime, agency spend, absenteeism, high turnover and compliance with the working time directive. Live monitoring is currently taking place within current constrictions.
165. CM2000 Functionality (February 2020)	**Implementation of additional CM2000 Functionality (Medium Risk)** We are working with CM2000 to develop a payroll report which will be used as the basis for staff payment. This report will be implemented for testing by September 2020.	30-Nov-2020 31-Jan-2021 31-Mar-2021 31-Jul-2021	28-Feb-2022 Interim Update	In concert with the national picture care at home continues to be under significant pressure, this is as a result of a complex picture including, the rising rates of covid infection, challenges in terms of absenteeism, recruitment and retention. The service has always benefitted from the mixed economy of service delivery, however as these pressures are mirrored in the independent sector it is becoming increasingly challenging to support the core service with the use of agency workers. Although a project initiation document was agreed on the 14 May 2021, this complex landscape is impacting on the proposed plans to review the service. As such on the 26 August 2021 a phased approach was agreed with Trade Unions colleagues. The initial phase of the service review, which is expected to last approximately 6 months, will focus on compliance with the principles of the Fair Work Framework, specifically in relation to overtime, agency spend, absenteeism, high turnover and compliance with the working time directive. Live monitoring is currently taking place within current constrictions.

REPORT TO AUDIT COMMITTEE ON
STATUS OF INTERNAL AUDIT ACTION PLANS
ANALYSIS OF MISSED DEADLINES

SECTION 4

Report	Agreed Action	Original Due Date	Revised Date	Management Comments
171. Social Work - Case Management (Report Issued August 2020)	**Children's Services – Performance management information (Low Risk)** Team Leads and Senior Social Workers to review management information reports and check recording processes to ensure accuracy. Data cleanse to ensure accurate caseloads is being forward by a sub group of the wider team with Information Team colleagues. Fieldwork managers to review how management reports can support allocation processes and case management planning across teams.	31-Aug-2020 31-Mar-2021 30-Jun-2021	31-Dec-2021	Comprehensive data reports being reviewed by Child Protection Lead Officer to focus on key risks and filter out other information with negiligible value. To report first draft to Public Protection Chief Officers Group December 2021.
171. Social Work - Case Management (Report Issued August 2020)	**Children's Services - Peer review of case files (Medium Risk)** Management Team are reviewing peer review processes as part of case file audit and monitoring and how this can inform service redesign. Work has commenced as part of the PACE workstream in respect of children looked after at home. Intention to scale up when capacity is increased.	31-Oct-2020 31-Mar-2021 30-Jun-2021	31-Dec-2021	This work is underway – we have an internal short life working group developing and refreshing the peer review process with the intention that the new process will start in January 2022. Case recording standards are associated with this work and also require to be revised from a child care perspective.
Cyber Security (Report Issued December 2020)	**User Education and Awareness Training (Amber)** c) Strategic People and Change Manager will progress the development of reports from ilearn which will enable managers to review their teams completion of the ilearn modules and add course to Skills Passport.	31-Mar-2021	31-Mar-2022	There are ongoing discussions with WMS in order to create a link between ILearn and HR system.
171. Social Work - Case Management (Report Issued August 2020)	**Children's Services – Supervision of case work (Medium Risk)** Supervision with staff covers a range of issues in addition to discussion about cases. Supervision process requires review and update – can reflect frequency of discussions around cases; consider discussion of a certain	31-Mar-2021 30-Jun-2021	31-Dec-2021	A short life working group will be set up to review the adult services supervision policy and update / revise for child care. In relation to 'Team around the Child' reviewing model, GIRFEC refresh is part of the children's services plan and is a multi agency activity. Timescales for this aspect will be agreed at Nurtured Dig.

Report	Agreed Action	Original Due Date	Revised Date	Management Comments
	number of cases in each supervision session. Explore an improved 'Team around the Child' reviewing model. Monthly report to managers, Head of Service, HSCP Chief Officer and Council Chief Executive includes breakdown of unallocated cases. Develop management exception report re: cases with no activity recorded for periods of time to provide further scrutiny and assurance.			Monthly report with breakdown of unallocated cases to managers, Head of Service, HSCP Chief Officer and Council Chief Executive is in place. Management exception reporting regarding cases with no activity recorded for periods of time to provide further scrutiny and assurance is now in place.
171. Social Work - Case Management (Report Issued August 2020)	**Children's Services – Policies and Procedures (Low Risk)** Policies to be reviewed and updated in terms of quality assurance, good practice and service redesign.	31-Mar-2021 30-Jun-2021	31-Dec-2021	Review of child protection and associated policies is being undertaken by CPC. Case recording and supervision policies are also being reviewed through the work of the short-life working groups.
Housing Voids (Report Issued October 2020)	**Void Management Policy Review & Update (Medium Risk)** The previous policy had fallen into abeyance, with the strategic direction for voids led by the Housing Improvement Board. Whereas this has led to significant improvements against the key tenets of the historic policy, given the extent of systemic and structural changes it would be beneficial to codify this within a revised policy. This will be developed with new tenant feedback and wider tenant consultation.	31-May-2021	28-Feb-2022	The process for revising the policy and approving the current relet standard in the interim has been reported to the Housing Improvement Board. We will then proceed with the tenant and stakeholder consultation which will inform a paper seeking committee approval for both policy and standard in February 2022.
Building Services - Stock Checks (Report Issued May 2021)	**Lack of Stock Checks on Building Services Vans (Amber)** The increase in imprest stock held in vehicles is part of the introduction of the IHMS. This allows a reduction in trips to depots to uplift stock items allowing right first time repairs and improved service efficiently. Stock checks of vans will be completed in line with monthly stock checks.	30-Jun-2021 31-Aug-2021 30-Sep-2021	31-Dec-2021	Pilot project to commence in October on one Building Services van to implement new IHMS process for managing Impress Stock in Vans. This involves a stock check on the Van stock. It is expected that the new process will be implemented for all Building Services vans with Impress stock (24 vans) by 31st December 2021.

REPORT TO AUDIT COMMITTEE ON STATUS OF INTERNAL AUDIT ACTION PLANS ANALYSIS OF MISSED DEADLINES

SECTION 4

Report	Agreed Action	Original Due Date	Revised Date	Management Comments
Rent Arrears (Report Issued July 2021)	**Lack of Meetings to Monitor Levels of Rent Arrears (Amber)** Management will reinstate performance meetings by Ward.	31-Jul-2021	30-Nov-2021	Meetings were started however due to significant absence levels in the wider team these have not been fully embedded. The team is working towards supporting staff to be able to concentrate on the arrears process.

REPORT TO AUDIT COMMITTEE ON
STATUS OF INTERNAL AUDIT ACTION PLANS
SUMMARY OF ACTIONS BY AUDIT YEAR **SECTION 5**

Status at 30 September 2021

Audit Year	No of Agreed Actions	No of actions complete	Current actions by Grade		
			H	**M**	**L**
2018/2019	79	78	0	1	0
2019/2020	67	57	1	6	3
Total	**146**	**135**	**1**	**7**	**3**

Audit Year	No of Agreed Actions	No of actions complete	Current actions by Grade		
			Red	**Amber**	**Green***
2020/2021	25	14	0	4	7
Total	**25**	**14**	**0**	**4**	**7**

* Green actions are within the Council's risk appetite and are therefore not included in Audit Committee reports.