

WEST DUNBARTONSHIRE COUNCIL
Report by the Executive Director of Corporate Services
Council: 24 March 2010

Subject: Prudential Indicators 2009/10 to 2012/13 and Treasury Management Strategy 2010/11 to 2012/13

1. Purpose

1.1 The purpose of this report is to ask Members to approve the proposed:

- (a) Prudential Indicators for 2009/10 to 2012/13, and the
- (b) Treasury Management Strategy for 2010/11 to 2012/13

2. Background

2.1 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.

2.2 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). 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.

2.3 Revised editions of the CIPFA Prudential Code and CIPFA Treasury Management Code of Practice were produced in November 2009 and the Scottish Government is currently considering the Draft Local Government Investments (Scotland) Regulations 2010 which are expected to come into force on 1 April 2010.

2.4 The revised guidance arising from these codes has been incorporated within the attached appendices, with the Scottish Government Investment proposals being incorporated with limitations that they will only be implemented once Regulations are issued. If necessary the Investment Strategy contained in Appendix II will be revised if any elements of the final Investment Regulations change.

2.5 Section 56 of the Local Government (Scotland) Act 1973 Act permits local authorities in Scotland to discharge their functions by committees. Exceptions are 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 have been extended to require Council to approve the Annual Investment Strategy via the Draft Local Government Investments (Scotland) Regulations 2010 which have been issued under section 40 of the 2003 Act.

- 2.6** The implication of Section 56 means that 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. Main Issues

- 3.1** The main changes initiated by the revisions above increase Members' responsibility in this area. This will require greater Member scrutiny of the treasury policies, increased Member training and awareness and greater frequency of information.
- 3.2** One element of the revised CIPFA Treasury Management Code of Practice is that the Council is required to formally adopt four Treasury Management clauses as part of the Council's financial regulations and these are attached at Appendix IV for approval.
- 3.3** One of the key clauses is that a responsible body be responsible for ensuring effective scrutiny of the treasury management strategy and policies, before making recommendations to Council. Within West Dunbartonshire Council the appropriate body is the Audit and Performance Review Committee.
- 3.4** The Local Government in Scotland Act 2003 requires Council to adopt the CIPFA Prudential Code and to produce prudential indicators. Appendix I of this report details the Council's revised indicators for 2009/10, 2010/11 and 2011/12 and introduces new indicators for 2012/13.
- 3.5** 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 for 2010/11 is included as Appendix II to complement the prudential indicators relating to the treasury activity.
- 3.6** Due to the volume of additional detail required by the Draft Local Government Investments (Scotland) Regulations 2010, together with the need to approve both the Prudential Indicators and the Treasury Management Strategy prior to 1 April 2010, it is necessary to have an initial period of transition. This will ensure that the Council is compliant with its statutory requirements while allowing the Audit and Performance Review Committee the required time to fulfil their scrutiny role.
- 3.7** During this transitional period it will be necessary for Council to approve both the Prudential Indicators and the Treasury Management Strategy prior to 1 April 2010, in line with previous practice, with the caveat that an update report should be presented to Council once the Audit and Performance Review Committee has carried out the scrutiny function. This update report will advise Council of any amendments required as a result of further scrutiny.

4. Personnel Issues

- 4.1** There are no personnel issues.

5. Financial Implications

- 5.1** The prudential indicators detailed in Appendix I show the Council's likely capital financing for the period 2009/10 to 2012/13 while the treasury management indicators detailed in Appendix II show the likely borrowing requirement for the same period. In each year the net borrowing requirement is in line with the capital financing requirement

6. Risk Analysis

- 6.1** The main risk is that capital receipts which affect the capital financing and borrowing requirement will not materialise and borrowing will require to be increased as a result.

7. Equalities Impact

- 7.1** No significant issues were identified in a screening for potential equality impact of this report.

8. Conclusions and Recommendations

- 8.1** The Prudential Indicators and the Treasury Management Strategy for 2009/10 to 2012/13 have been estimated using current information and are detailed in Appendix I and II.

- 8.2** Members are requested to:

- (a) Adopt the Prudential Indicators and Limits set out within Appendix I:
 - Capital Expenditure and Capital Financing Requirements (Tables A and B)
 - Actual and estimates of the ratio of financing costs to Net Revenue Stream (Table C)
 - Incremental impact of capital investment decisions on the Band D Council Tax (Table D)
 - Incremental impact of capital investment decisions Housing Rent levels (Table E)
- (b) Approve the Treasury Management Strategy 2010/11 (including the Investment Strategy 2010/11) contained within Appendix II.
- (c) Adopt the Treasury Prudential Indicators and Limits set out in Appendix II.
 - Operational Boundaries (Table F)
 - Authorised Limits (Table H)
 - Counterparty Limits (Table K)
 - Treasury Management Limits on Activity (Table M)
- (d) Approve the statement by the Executive Director of Corporate Services regarding the external borrowing level in comparison to the Capital Financing Requirement (Appendix II - Point 3.3).

- (e) Adopt the Treasury Management Policy Statement (noted in Appendix III)
- (f) Adopt the four Treasury Management clauses as part of the Council's financial regulations at Appendix IV, including the nomination of the Audit and Performance Review Committee to ensure effective scrutiny of the treasury management strategy and policies, and to request that an update report be presented to Council once further scrutiny has taken place.
- (g) Note that a briefing session on Treasury Management and Investments will be given to Members later in the year in line with the requirements of the revised CIPFA Treasury Management Code of Practice

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Date: 5 March 2010

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Appendices:

- I Prudential Indicators 2009/10 to 2012/13
- II Treasury Management Strategy 2010/11 to 2012/13
- III Treasury Management Policy Statement
- IV Treasury Management Clauses to be Formally Adopted
- V West Dunbartonshire Council and Common Good Funds Permitted Investments, Associated Controls and Limits
- VI Counterparty Rating Explanations

Background Papers: General Services Capital Budgetary Control –
 Council 24 February 2010

General Services Capital Plan 2010/11 –
 Council 24 February 2010

Wards Affected: All wards affected.