WEST DUNBARTONSHIRE COUNCIL

Report by the Strategic Lead - Resources

Council: 4 March 2020

Subject: Prudential Indicators 2019/20 to 2029/30 and Treasury Management Strategy 2020/21 to 2029/20

1. Purpose

1.1 The purpose of this report is to seek Council approval of the proposed Prudential Indicators for 2019/20 to 2022/23 and Treasury Management Strategy (including the Investment Strategy) for 2020/21 to 2022/23.

1.2 The report also advises Council of:

- the indicative indicators for the period from 2023/24 to 2029/30; and
- an update to Financial Standards in relation to Leasing which will lead to amendments to some of the indicators during 2020/21.

2. Recommendations

2.1 Council is requested to:

(a) Agree the following Prudential Indicators and Limits discussed in Appendix 1 and set out within Appendix 6 for the period 2020/21 to 2022/23:

- 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) Approve the policy for loans fund advances discussed in Appendix 1 in section 3;

(c) Approve the Treasury Management Strategy for 2020/21 to 2022/23 (including the Investment Strategy) contained within Appendices 2 to 6;

(d) Agree the following Treasury Prudential Indicators and Limits discussed in Appendix 2 and set out within Appendix 6 for the period 2020/21 to 2022/23:

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

(e) Note the draft Prudential and Treasury Management Indicators for the period 2023/24 to 2029/30 discussed in Appendices 1 and 2 and set out within Appendix 6;

(f) Approve 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) Note 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 2019/20 to 2029/30 and Treasury Management Strategy 2020/21 to 2029/30 should be referred to the Audit Committee once approved by Council to ensure further scrutiny takes place.

3.9 From 25 February 2020 the Public Works Loan Board (PWLB) function has been taken over by HM Treasury. The Council's current loan arrangements with PWLB do not change and the process for application of new loans is not anticipated to change.

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 2019/20, revises the indicators for 2020/21 to 2022/23 and projects the indicators to 2029/30, with those for the period 2023/24 to 2029/30 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 2020/21 to 2029/30 is included in Appendix 6 (with the period 2023/24 to 2029/30 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.

<u>Changes to Financial Regulations - Leasing</u>

4.4 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 2020. 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

4.5 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.

4.4.1 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.

4.4.2 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.

Loans Fund Review

4.4.4 The attached Treasury Strategy includes information as to the implementation of the loans fund review (as agreed at Council meetings in March 2019 and January 2020) and amends the relevant indicators in line with the agreed changes.

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 2019/20 to 2029/30 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 2020/21 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.

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Date: 27 February 2020

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Appendices:
1 Prudential Indicators 2019/20 to 2029/30
2 Treasury Management Strategy 2020/21 to 2029/30
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 27 March 2019
Treasury Mid-year update – Council 30 October 2019
Budget Update – Council 27 March 2019
Budget Update – Council 27 January 2020
Budget Update – Council 4 March 2020

Wards Affected: All wards affected.

Appendix 1

Capital Prudential Indicators 2019/20 to 2029/30

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 update reported to Council 4 March 2020 for HRA and General Services respectively, is shown in the table A in Appendix 6. The HRA capital plan refresh extends to 2024/25 with the period from 2025/26 to 2029/30 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)", further confirmed in paragraph 14 of Finance Circular 7/2016. 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 on 4 March 2020 assumes £4.384m of capital receipts used to fund the principal element of loan charges between 2019/20 and 2022/23 (with use of a further £7.167m, from the sale of OLSP and Garshake, to be used during this period as reported to Council in January 2020).

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 £103.101m for PPP schemes within the CFR. From 1 April 2020, further accounting changes sees operational leases (where the Council is a lessee) also being brought onto Balance Sheet, which will further increase CFR through other long term liabilities (value to be confirmed and the figures within the mid-year Treasury Management will be updated for this change).

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 2019/20 to 2029/30 with the CFR for General Services being anticipated to increase each year from 2019/20 to 2029/30, with the exception of 2026/27 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. Loans Fund Review and the Statutory repayment of loans fund advances

3.1 A Loans Fund Review exercise was undertaken during 2018/19 which allowed a cash flow benefit to be applied over a number of years. This was in line with the position taken by Audit Scotland as to the extent of review that was allowed by Scottish Government Guidance and Legislation around the Local Authority Loans Fund. The Audit Scotland position has since changed and, as reported to Council in January 2020, officers have undertake a further review of the Council's loans fund, looking retrospectively at loans from 1996/97 onwards. Following agreement by Council in January 2020, this results in increased debt of £28.925m (split General Services £19.763m and HRA £9.162m), to be written off in future years.

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, 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 be to apply the **Statutory Method**, with all loans fund advances being repaid by the annuity method, by the appropriate write off period following the agreed Council policy.

- Recognising that the Council has forward capital expenditure plans, 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 apply the **Statutory Method**, with all loans fund advances being repaid by the annuity method 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 2019/20 onwards based on the balance outstanding at 1 April 2019 (adjusted for the agreed loans fund review amendments) and capital expenditure plans 2019/20 to 2028/29 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 2020 there is a significant change to the Accounting Code of Practice for 2020/21 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 2020, all leases (where the Council is lease 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. The mid-year Treasury Management Report indicators will be updated to account for this change. The liability of the leases, which will be added to the long term liability value within the Council's debt levels) will be contained within the Authorised Limit.

Appendix 2

Treasury Management Strategy 2020/21 – 2029/20

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, the 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, with no changes required:

- 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 2029/30. 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 2020 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 2020 with the CFR as at 31 March 2023.

2.3 **The Section 95 Officer (Strategic Lead - 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 2020.

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. Prospect for Interest Rates

4.1 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. The forecasts within the table have been based on an assumption that there is an agreed deal on Brexit, including agreement on the terms of trade between the UK and EU, at some point in time. The result of the general election has removed much uncertainty around this major assumption. However, it does not remove uncertainty around whether agreement can be reached with the EU on a trade deal within the short time to December 2020.

4.2 On this basis, whilst GDP growth is likely to be subdued in 2020 due to all the uncertainties around Brexit depressing consumer and business confidence, an agreement on the detailed terms of a trade deal is likely to lead to a boost to the rate of growth in subsequent years.. This could increase inflationary pressures in the economy and cause the Bank of England to resume a series of gentle increases in the Bank Base Rate. The current forecasts assume a modest increase in the rate.

4.2.1 In the event of an orderly non-agreement exit in December 2020, it is likely that the Bank of England would take action to cut Bank Base Rate from 0.75% in order to help economic growth deal with the adverse effects of this situation. This is also likely to cause short to medium term gilt yields to fall.

4.2.2 If there was a disorderly Brexit, then any cut in Bank Base Rate would be likely to last for a longer period and also depress short and medium gilt yields correspondingly. Quantitative easing could also be restarted by the Bank of England. It is also possible that the government could act to protect economic growth by implementing fiscal stimulus.

4.3 **Balance of risks to the UK** - The overall balance of risks to economic growth in the UK is probably neutral due to the uncertainties over post-Brexit trade arrangements and the iimpact of an expansionary government spending policy (as expected in the Westminster Budget in March 2020). The balance of risks to increases or decreases in Bank Base Rate and shorter term HM Treasury rates, are probably also even.

4.3.1 One risk that is both an upside and downside risk, is that all central banks are now working in very different economic conditions than before the 2008 financial crash as there has been a major increase in consumer and other debt due to the exceptionally low levels of borrowing rates that have prevailed since 2008. This means that the neutral rate of interest in an economy, (i.e. the rate that is neither expansionary nor deflationary), is difficult to determine definitively in this new environment, although central banks have made statements that they expect it to be much lower than before 2008. Central banks could therefore either over or under do increases in central interest rates.

4.3.2 Downside risks to current forecasts for UK gilt yields and HM Treasury rates currently includes:

- Post Brexit trade negotiations – if it were to cause significant economic disruption and a major downturn in the rate of growth.

- Bank of England takes action too quickly, or too far, over the next three years to raise Bank Base Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.

- A resurgence of the Eurozone sovereign debt crisis. In 2018, Italy was a major concern due to having a government which made a lot of anti-austerity and anti-EU noise. However, in September 2019 there was a major change in the coalition governing Italy which has brought to power a much more EU friendly government; this has eased the pressure on Italian bonds. Only time will tell whether this new coalition will endure.

- Weak capitalisation of some European banks particularly Italian banks.

- German minority government. In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. The CDU has done badly in recent state elections but the SPD has done particularly badly and this has raised a major question mark over continuing to support the CDU. Angela Merkel has stepped down from being the CDU party leader but she intends to remain as Chancellor until 2021.

- Other minority EU governments. Austria, Finland, Sweden, Spain, Portugal, Netherlands and Belgium also have vulnerable minority governments dependent on coalitions which could prove fragile.

- Austria, the Czech Republic, Poland and Hungary now form a strongly anti-immigration bloc within the EU. There has also been rising anti-immigration sentiment in Germany and France.

- In October 2019, the IMF issued a report on the World Economic Outlook which flagged up a synchronised slowdown in world growth. However, it also flagged up that there was potential for a rerun of the 2008 financial crisis, but this time centred on the huge debt binge accumulated by corporations during the decade of low interest rates. This now means that there are corporates who would be unable to cover basic interest costs on some $19trn of corporate debt in major western economies, if world growth was to dip further than just a minor cooling. This debt is mainly held by the shadow banking sector i.e. pension funds, insurers, etc., who, when there is $15trn of corporate and government debt now yielding negative interest rates, have been searching for higher returns in riskier assets. Much of this debt is only marginally above investment grade so any rating downgrade could force some holders into a fire sale, which would then depress prices further and so set off a spiral down. The IMF's answer is to suggest imposing higher capital charges on lending to corporates and for central banks to regulate the investment operations of the shadow banking sector. In October 2019, the deputy Governor of the Bank of England also flagged up the dangers of banks and the shadow banking sector lending to corporates, especially highly leveraged corporates, which had risen back up to near pre-2008 levels.

- Geopolitical risks,for example in North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

4.3.3 Upside risks to current forecasts for UK gilt yields and HM Treasury rates includes:

- Brexit – if a comprehensive agreement on a trade deal was reached that ermoved all threads of economic and political distruption between the EU and the UK.

- The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.

- UK inflation, whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

5. Borrowing and Debt Strategy 2020/21 – 2029/30

5.1 At the end of 2018/19 the Council was slightly under-borrowed. Table E in Appendix 6 forecasts that the Council will return to a broadly neutral borrowing position at the end of 2026/27 and will maintain this going forward. This indicates that the capital borrowing need (the Capital Financing Requirement) will be fully funded with external borrowing which is a mixture of short term and long term debt.

5.2 Against this background and the risk within the economic forecast, caution will be adopted with the 2020/21 treasury operations. The Section 95 Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

5.3 If it was felt that there was a significant risk of a sharp fall in long and short term rates, e.g. due to a marked increase of risks around relapse into 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.

5.4 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.

5.5 HM Treasury increased its interest rates by 1% on 9 October 2019 with many local authorities now viewing HM Treasury as a lender of last resort. It is likely that alternative providers of finance will step into the market for lending to local authorities and the Council will make full use of available financing to ensure the optimum borrowing strategy.

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

5.7 Sources of borrowing for the Council include:

- HM Treasury;
- Local Authorities;
- Banks;
- Pension Funds;
- Insurance Companies;
- Market – long term;
- Market – short term;
- Market – LOBOs;
- Overdraft;
- Internal (capital receipts / revenue balances); and
- Finance Leases.

6. Investment Strategy

6.1 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.

6.2 **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.

6.2.1 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.

6.2.2 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.

6.2.3 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.

6.2.4 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.

6.3 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

6.4 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.

6.4.1 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.

6.4.2 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.

6.4.3 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.

6.4.4 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.

6.4.5 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.

6.5 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.

6.5.1 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).

6.5.2 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.

6.5.3 There is a potential impact of a 'no deal' Brexit on the credit ratings for UK financial institutions if the UK sovereign rating was to be downgraded. This will be monitored and appropriate action taken as necessary.

6.6 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.

6.6.1 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.

6.6.2 Credit rating type and definitions are attached as Appendix 6.

6.6.3 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.

6.6.4 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**

6.6.5 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.

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

6.6.7 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 Strategic Lead - 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.

6.6.8 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.

6.6.9 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.

6.6.10 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.

6.6.11 Economic Investment Considerations – Current forecasts on shorter-term interest rates, on which investment decisions are based, show a potential for the current 0.75% Bank Base Rate increasing to 1% in June 2021. The Council's investment decisions are based on comparisons between the rises priced into market rates against the Council's and advisers own forecasts.

6.6.12 There is an operational difficulty arising from the current banking crisis. 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.

6.6.13 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 (Strategic Lead - 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.

6.6.14 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.

6.7 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.

6.8 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.

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

6.8.2 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)

6.8.3 In order to give effect to its commitment to this policy the Strategic Lead (Resources) contacted all investment counterparties on 9 January 2018 advising of our policy.

6.8.4 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.

7. Treasury Management Limits on Activity

7.1 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.

7.2 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.

8. Performance Indicators

8.1 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.

8.2 The results of these indicators will be reported in the Treasury Annual Report for 2019/20.

9. Treasury Management Advisors

9.1 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.

9.2 The current treasury advisor contract was awarded to Link Asset Services following a quick quote exercise and commenced on 1 May 2018 for a period of two years till 30 April 2020 with an option to extend for a further one year until 30 April 2021. This option has been taken, therefore Link Asset Services have been appointed until 30 April 2021.

9.3 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.

9.4 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.

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

10. The Monitoring of Investment Counterparties

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

Appendix 3

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 are either Constant Net Asset Value (CNAV) or Low Volatility Net Asset Value (LVNAV), and the fund has a "AAA" rated status from either Fitch, Moody's or Standard & Poors.	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 (Strategic Lead - 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.

Appendix 4

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

Appendix 5

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

Based on lowest available rating

AAA

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

AA+

- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- Hong Kong
- France
- U.K.

AA-

- Belgium
- Qatar

West Dunbartonshire Council Prudential and Treasury Indicators **Appendix 6**

Table A - Net Capital Financing Need

General Services and HRA Shown Separately

£000	Forecast 2019/20	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
General Services	**57,281**	**67,437**	**47,943**	**51,978**	**32,745**	**23,467**	**19,559**	**13,288**	**13,290**	**13,232**	**13,232**
Financed by:											
Capital receipts	0	14,218	4,435	3,777	3,931	2,370	3,140	4,437	2,339	1,000	1,000
Capital grants	16,258	21,109	19,751	9,625	13,909	14,359	14,809	8,850	6,679	6,679	6,679
Revenue	38	0	0	0	0	0	0	0	0	0	0
Other funding	278	0	0	0	0	0	0	0	0	0	0
Net financing need for the year	**40,707**	**32,109**	**23,757**	**38,576**	**14,905**	**6,738**	**1,610**	**0**	**4,272**	**5,553**	**5,553**

£000	Forecast 2019/20	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
HRA	**51,266**	**60,006**	**32,479**	**27,295**	**27,269**	**27,179**	**26,044**	**21,714**	**13,865**	**14,197**	**15,887**
Financed by:											
Capital receipts	0	0	0	0	0	0	0	0	0	0	0
Capital grants	13,163	5,006	4,792	3,190	1,770	3,319	0	0	0	0	0
Revenue	7,478	7,478	6,003	4,813	4,216	3,263	3,263	2,915	2,798	2,542	2,219
Other funding	0	96	0	0	0	0	0	0	0	0	0
Net financing need for the year	**30,625**	**47,425**	**21,684**	**19,292**	**21,283**	**20,598**	**22,781**	**18,799**	**11,067**	**11,655**	**13,668**

General Services and HRA Combined

£000	Forecast 2019/20	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
General Services	57,281	67,437	47,943	51,978	32,745	23,467	19,559	13,288	13,290	13,232	13,232
HRA	51,266	60,006	32,479	27,295	27,269	27,179	26,044	21,714	13,865	14,197	15,887
Capital Expenditure	**108,547**	**127,442**	**80,422**	**79,273**	**60,014**	**50,647**	**45,603**	**35,002**	**27,155**	**27,429**	**29,119**
Financed by:											
Capital receipts	0	14,218	4,435	3,777	3,931	2,370	3,140	4,437	2,339	1,000	1,000
Capital grants	29,421	26,115	24,543	12,815	15,679	17,678	14,809	8,850	6,679	6,679	6,679
Revenue	7,516	7,478	6,003	4,813	4,216	3,263	3,263	2,915	2,798	2,542	2,219
Other funding	278	96	0	0	0	0	0	0	0	0	0
Net financing need for the year	**71,332**	**79,535**	**45,441**	**57,868**	**36,188**	**27,336**	**24,391**	**18,799**	**15,339**	**17,208**	**19,221**

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Table B - Capital Financing Requirement

£000	Forecast 2019/20	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
Capital Financing Requirement											
CFR – General Services	375,852	401,221	418,596	450,974	458,886	457,606	450,381	440,843	435,708	432,223	428,580
CFR – HRA	250,981	292,343	307,465	319,607	332,771	344,376	357,703	366,672	367,275	367,850	369,978
Total CFR	**626,832**	**693,564**	**726,061**	**770,582**	**791,658**	**801,982**	**808,084**	**807,515**	**802,984**	**800,073**	**798,558**
Movement in CFR	88,700	66,731	32,497	44,521	21,076	10,324	6,102	(569)	(4,532)	(2,911)	(1,515)

Movement in CFR represented by											
Net financing need for the year (above)	71,332	79,535	45,441	57,868	36,188	27,336	24,391	18,799	15,339	17,208	19,221
Loans Fund Review	28,925	-	-	-	-	-	-	-	-	-	-
Less scheduled debt amortisation and other financing movements	(11,556)	(12,804)	(12,944)	(13,348)	(15,111)	(17,012)	(18,289)	(19,368)	(19,870)	(20,119)	(20,736)
Movement in CFR	**88,700**	**66,731**	**32,497**	**44,521**	**21,076**	**10,324**	**6,102**	**(569)**	**(4,532)**	**(2,911)**	**(1,515)**

Table C - Loan Fund Repayment Profile

	General Services	HRA	Total
	£000	**£000**	**£000**
Under 12 months	2,849	5,608	8,456
2 years to 5 years	12,473	27,894	40,367
6 years to 10 years	23,724	49,821	73,546
11 years to 15 years	32,474	54,940	87,413
16 years to 20 years	32,293	52,733	85,026
21 years to 25 years	31,292	62,348	93,640
26 years to 30 years	31,712	57,137	88,848
31 years to 35 years	35,471	51,962	87,433
36 years to 40 years	46,955	43,765	90,719
41 years to 45 years	29,357	14,376	43,733
46 years to 50 years	17,924	242	18,166
51 years to 55 years	19,338	346	19,685
56 years to 60 years	19,111	526	19,637
60 years plus	108,929	3,146	112,075

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Table D - Ratio of Financing Costs to Net Revenue Stream

	Forecast 2019/20	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
General Services	9.35%	9.62%	9.53%	9.73%	10.32%	11.07%	11.63%	11.86%	11.86%	11.61%	11.65%
HRA	23.48%	25.91%	28.76%	30.33%	32.51%	34.44%	35.98%	36.62%	37.65%	38.19%	38.37%

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

£000	Forecast 2019/20	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
External Debt											
Debt at 1 April	426,051	517,851	588,193	624,381	672,287	696,517	710,446	720,880	725,036	725,177	726,043
New Borrowing - CFR	91,800	70,342	36,188	47,906	24,229	13,929	10,435	4,155	141	866	2,294
Debt at 31 March	**517,851**	**588,193**	**624,381**	**672,287**	**696,517**	**710,446**	**720,880**	**725,036**	**725,177**	**726,043**	**728,337**
Long Term Liabilities at 1 April	103,101	100,002	96,391	92,701	89,315	86,162	82,558	78,225	73,500	68,827	65,050
Change in Long Term Liabilities	(3,099)	(3,611)	(3,691)	(3,385)	(3,153)	(3,605)	(4,333)	(4,724)	(4,673)	(3,777)	(3,809)
Long Term Liabilities at 31 March	**100,002**	**96,391**	**92,701**	**89,315**	**86,162**	**82,558**	**78,225**	**73,500**	**68,827**	**65,050**	**61,242**
Gross Debt at 31 March	617,853	684,585	717,082	761,603	782,679	793,003	799,105	798,536	794,004	791,094	789,579
Capital Financing Requirement	626,832	693,564	726,061	770,582	791,658	801,982	808,084	807,515	802,984	800,073	798,558
Under / (Over) Borrowing	**8,979**	**8,979**	**8,979**	**8,979**	**8,979**	**8,979**	**8,979**	**8,979**	**8,979**	**8,979**	**8,979**

Table F - Operational Boundary

£000	Forecast 2019/20	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
External Debt	569,636	647,012	686,820	739,516	766,168	781,490	792,969	797,539	797,695	798,648	801,171
Long Term Liability	110,003	106,031	101,971	98,247	94,778	90,813	86,047	80,850	75,710	71,555	67,366
Total	**679,639**	**753,043**	**788,790**	**837,763**	**860,947**	**872,303**	**879,016**	**878,390**	**873,405**	**870,203**	**868,536**

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Table G - Authorised Limit

£000	Forecast 2019/20	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
External Debt	621,421	705,832	749,258	806,745	835,820	852,535	865,057	870,043	870,213	871,252	874,004
Long Term Liability	120,003	125,670	121,241	117,178	113,394	109,069	103,870	98,201	92,593	88,060	83,490
Total	**741,424**	**831,501**	**870,498**	**923,923**	**949,214**	**961,604**	**968,926**	**968,244**	**962,805**	**959,312**	**957,494**

Table H - Interest Rate Forecast

Link Asset Services Interest Rate View	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Oct-22	Jan-23	Mar-23
Bank Rate	0.75%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.25%
5yr PWLB Rate	2.30%	2.30%	2.40%	2.40%	2.50%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%
10yr PWLB Rate	2.50%	2.50%	2.60%	2.60%	2.70%	2.80%	2.90%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%
25yr PWLB Rate	3.00%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%	3.60%	3.70%	3.80%	3.80%	3.90%	3.90%
50yr PWLB Rate	2.90%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%	3.60%	3.70%	3.70%	3.80%	3.80%

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Table I - Historic Risk of Default

Long term rating	1 year	2 years	3 years	4 years	5 years
AAA	0.04%	0.10%	0.18%	0.27%	0.36%
AA	0.02%	0.04%	0.10%	0.17%	0.24%
A	0.05%	0.15%	0.28%	0.42%	0.59%
BBB	0.16%	0.44%	0.77%	1.15%	1.55%
BB	0.71%	2.00%	3.47%	4.92%	6.22%
B	2.90%	7.00%	10.67%	13.74%	16.12%
CCC	18.74%	26.47%	31.60%	35.37%	38.17%

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

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	

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Table K - Sensitivity to Interest Rate Movements

£000	2020/21 Estimate	1%	-1%
Variable Rate Debt Payments	N/A	N/A	N/A
Variable Rate Investment income	75	150	(75)

Table L- Treasury Management Limits on Activity

	2020/21 Upper	2021/22 Upper	2022/23 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