

WEST DUNBARTONSHIRE COUNCIL

Report by the Chief Officer - Resources

Audit Committee: 12 June 2024

Subject: Treasury Management Strategy and Annual Investment Strategy

1. Purpose

- 1.1 Following approval at Council on 27 March 2024, the purpose of this report is to provide Members with the opportunity to further scrutinise the Prudential Indicators for and Treasury Management Strategy (including the Investment Strategy) for 2023/24 to 2032/33.

2. Recommendations

- 2.1 Members are requested to consider the report and note that on 27 March 2024 that Council:
- (a) Approved the proposed Treasury Management Strategy Statement and Annual Investment Strategy and the indicators contained within
 - (b) Approved the continued use of the asset life method (using either annuity or equal instalment) for the repayment of loan fund advances with the exception of spend to save schemes where the funding/income profile method could be used.
 - (c) Approved the ability to continue to use countries with a sovereign rating of AA- and above.
 - (d) Added the recommendation that the short-term debt profile be capped at 30%. Council recognised that transitioning from current short-term levels to longer-term will take some time and invites the S95 officer to manage the timeline of this change. This should be reported on at the next review of the Treasury management strategy. Council also seeks to strike off lender option borrower option (LOBO's) as an approved source of long or short term borrowing from our borrowing and debt strategy.
 - (e) Noted that the report will be referred to Audit Committee for further scrutiny.

3. Background

- 3.1 The Council has adopted the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management in Local Authorities. A requirement of the Code is for an annual Treasury Management Strategy Statement and Investment Strategy to be approved by Council for the forthcoming financial year. This report seeks Member's approval of the proposed Treasury Management Strategy Statement and Annual Investment

Strategy. The report also sets out the policy for the repayment of loans fund advances for 2024/25.

- 3.2 The Council uses Link Treasury Services as its external treasury management advisors. The Council 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 will be assessed are properly agreed and documented, and subject to regular review.
- 3.3 Appendix 1 and 2 of the attached document outline the Council's Capital Prudential and Treasury Indicators which Members are asked to approve as required by the Local Government (Scotland) Act 1973 (extended via the *Code on the Investments of Money by Scottish Local Authorities* (issued on 1 April 2010) under section 40 of the Local Government in Scotland Act 2003.
- 3.4 In 2016 new regulations were enacted by the Scottish Parliament, the Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016, under which the Council is required to set out its policy for the statutory repayment of loans fund advances prior to the start of the financial year as detailed in section 3 of Appendix 1. The policy on repayment of loans fund advances in respect of capital expenditure by the Council is to ensure 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.
- 3.7 The CIPFA Treasury Management Code of Practice requires greater Member scrutiny of the treasury policies, increased Member training and awareness and greater frequency of information. One of the key clauses is that a responsible body is required to ensure effective scrutiny of the treasury management strategy and policies. Within West Dunbartonshire Council the body identified to fulfil this role is the Audit Committee. Therefore the proposed Treasury Management Strategy Statement and Annual Investment Strategy and the indicators contained within should be referred to the Audit Committee once approved by Council to ensure further scrutiny takes place.

4. Main Issues

- 4.1 The Local Government in Scotland Act 2003 requires Council to adopt the CIPFA Prudential Code and to produce prudential indicators. Appendix 6 of this report details the Council's expected year end indicators for 2024/25, revises the indicators for 2025/26 to 2027/28 and projects the indicators to 2032/33, with those for the period 2027/28 to 2032/33 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 2024/25 to 2032/33 is included in Appendix 6 (with the period 2027/28 to 2032/33 being indicative at

this time) to complement the prudential indicators relating to the treasury activity.

- 4.3** Details of the risks, mitigating controls and limits associated with each of the permitted investment categories are shown in Appendix 3. Credit rating type and definitions are attached as Appendix 4 and a list of approved sovereign countries for investments are attached as Appendix 5.

Changes to Financial Regulations – Leasing

- 4.4** The Treasury Management Strategy report to Council in March 2021 reported a change to financial regulations regarding leasing. The change was postponed and is now due to be implemented on 1 April 2024.
- 4.5** This change brings the assets and future liabilities for all leases onto the Council's Balance Sheet from 1 April 2024, which will bring leased assets onto the balance sheet for the closing of the 2024/25 accounts. The effect of this change will increase the 'level of debt' identified by the Council; the Capital Financing Requirement; Operational Boundary; and Authorised Limit, by the future liability of the leased assets. Forecast and estimates of the ratio of financing costs to Net Revenue Stream may also be affected in future years. This change affects all councils, though this Council has a low number of leased assets.

Capital Strategy

- 4.6** For information, in December 2017, CIPFA issued a revised Prudential Code. As a result, from 2019/20, all local authorities were required to prepare a Capital Strategy report, and a revision to the Prudential Code 2021 confirmed that Local Authorities must produce an Annual Capital Strategy 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
 - the implications for future financial sustainability.
- 4.6.1** The aim of the Capital Strategy report is to ensure that all elected members fully understand the overall strategy, governance procedures and risk appetite entailed by the Strategy.
- 4.6.2** The Capital Strategy for 2024/25 (reported to, and approved by, Council on 6 March 2024) includes capital expenditure, investments and liabilities and treasury management in sufficient detail to allow all Members to understand how stewardship, value for money, prudence, sustainability and affordability will be secured.
- 5. Option Appraisal**
- 5.1** No option appraisal was required for this report.

6. People Implications

6.1 There are no people implications arising from this report.

7. Financial and Procurement Implications

7.1 The prudential indicators detailed in Appendix 6 show the Council's likely and indicative capital financing for the period 2024/25 to 2032/33 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 2024/25 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.
- (d) Interest rates have increased significantly over the past 18 months and are subject to further uncertainty. It was highlighted to Council on the 6th March that the approved Capital plan was affordable in 2024/25 assuming a balanced revenue budget was agreed it does create significant pressures on

the revenue budget due to the cost of borrowing as a result of high interest rates. There is a risk that if interest rates remain higher for longer than currently forecast. This will have revenue implications for future years and these will require to be planned for in the normal manner through long-term financial strategies and budget planning processes. This may require the capital programme to be subject to further review in future years if it is deemed to be placing an excessive pressure on the revenue budget and the sustainability of the Housing Revenue Account (HRA).

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: 22 May 2024

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Appendices:

1	Prudential Indicators 2024/25 to 2032/33
2	Treasury Management Strategy 2024/25 to 2032/33
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: 2024/25 Budget Report – Council 6 March 2024
Treasury Management Strategy – Council 29 March 2023
Treasury Mid-year update – Council 20 December 2023

Wards Affected: All wards affected.