

WEST DUNBARTONSHIRE COUNCIL
Report by the Executive Director of Corporate Services
Council: 28 March 2012

Subject: Prudential Indicators 2011/12 to 2014/15 and Treasury Management Strategy 2012/13 to 2014/15

1. Purpose

1.1 The purpose of this report is to seek Members' approval of the proposed:

- (a) Prudential Indicators for 2011/12 to 2014/15; and
- (b) Treasury Management Strategy (including the Investment Strategy) for 2012/13 to 2014/15.

2. Background

2.1 With the introduction of the Prudential Code, the Council has freedom over capital expenditure so long as it is prudent, affordable and sustainable. In order to show it is working within these limits the Council must approve, revise and monitor a range of prudential indicators covering the forthcoming three years.

2.2 The Council's treasury activities are strictly regulated by statutory requirements (*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.

2.3 Revised editions of the CIPFA Prudential Code and CIPFA Treasury Management Code of Practice were issued in November 2011. The revised guidance arising from these codes has been incorporated within the proposals.

2.4 Section 56 of the Local Government (Scotland) Act 1973 Act permits local authorities in Scotland to discharge their functions by committees. Exceptions are setting the council tax (s56 (6) (b)) and borrowing money (s56 (6) (d)), which requires the authority, that is full Council, to discharge. The Section 56 provisions were extended to require Council to approve the Annual Investment Strategy via the *Code on the Investments of Money by Scottish Local Authorities* which was issued on 1 April 2010 been issued under section 40 of the 2003 Act.

- 2.5** 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.
- 2.6** 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.
- 2.7** As a requirement of the Code the Council adopted a Treasury Management Policy Statement and four Treasury Management clauses on 31 March 2010. These form part of the Council's financial regulations and are also a requirement of one of the prudential indicators. The revised Code of Practice has required amendments to the Treasury Management Policy Statement and the Treasury Management Clauses also require to be updated as the Executive Director of Corporate Services is no longer the Council's Section 95 Officer. The revised policy statement and the revised clauses, along with the treasury management role of the S95 officer, are attached as Appendices 1, 2 and 3 respectively.
- 2.8** 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 and Performance Review Committee.
- 2.9** The Prudential Indicators 2011/12 to 2014/15 and Treasury Management Strategy 2012/13 to 2014/15 should be referred to the Audit and Performance Review Committee once approved by Council to ensure further scrutiny takes place.

3. Main Issues

- 3.1** The Local Government in Scotland Act 2003 requires Council to adopt the CIPFA Prudential Code and to produce prudential indicators. Appendix 4 of this report details the Council's expected year end indicators for 2011/12, revises the indicators for 2012/13 and 2013/14 and introduces new indicators for 2014/15.
- 3.2** 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 2012/13 to 2014/15 is included as Appendix 6 to complement the prudential indicators relating to the treasury activity.
- 3.3** Details of the risks, mitigating controls and limits associated with each of the permitted investment categories are shown in Appendix 6. Credit rating type and definitions are attached as Appendix 7 and a list of approved sovereign countries for investments are attached as Appendix 8.

- 3.4** The Council is in the process of establishing a separate legal entity for delivery of its leisure services (the “Trust”). The Trust will be formed as a new legal entity with charitable status which will secure various fiscal benefits for both the Trust and ultimately the Council with a target date for implementation of 1 April 2012. The Council will engage the Trust as a service provider in relation to the provision of efficient and effective treasury management operations and the parties will enter into a Transitional Services Agreement for this purpose.
- 3.5** The Trust will be a distinct legal entity from the Council with power to contract in its own name. However, the Council will be the sole member of the Trust and will have ultimate control over its activities. The impact of this arrangement is that the Trust is not required to develop its own treasury management strategy, although this is something that the Board of Directors may wish to look at in due course. Initially however the Trust will adopt the strategy of the Council.
- 3.6** Partial Housing Stock Transfer and the proposals around the Securitisation of the income from the Council’s non-operational property portfolio are mentioned as local issues that may impact on the Council during 2012/13 and in future years (Appendix 5 – section 12). Due to the uncertainty surrounding the final outcome of these projects the prudential and treasury indicators do not take account of these initiatives at this time but will be updated and reported to Members within the mid-year report (as appropriate).

4. People Implications

- 4.1** There are no people implications arising from this report.

5. Financial Implications

- 5.1** The prudential indicators detailed in Appendix 4 show the Council’s likely capital financing for the period 2011/12 to 2014/15 while the treasury management indicators detailed in Appendix 5 show the likely borrowing requirement for the same period. In each year the net borrowing requirement is below the capital financing requirement (Appendix 4 – section 5.1).

6. Risk Analysis

- 6.1** There are three main risks associated with the formulation of prudential indicators and the treasury management strategy as detailed in Appendix 4 and 5:
- (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 5 – 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.

7. Equalities Impact Assessment

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

8. Strategic Assessment

- 8.1 The Council has identified four main strategic priorities, namely: Social & Economic Regeneration; Financial Strategy; Asset Management Strategy; and Fit for Purpose Services.
- 8.2 Treasury management contributes to the Financial Strategy via the interdependency that exists between pro-active treasury management and the formulation of long term financial plans.

9. Conclusions and Recommendations

- 9.1 The revised Treasury Management Policy Statement and Clauses, along with details of the treasury management role of the S95 Officer, are detailed in Appendices 1 to 3 respectively.
- 9.2 The Prudential Indicators for 2011/12 to 2014/15 and the Treasury Management Strategy (including the Investment Strategy) for 2012/13 to 2014/15 have been estimated using current information and are detailed in Appendices 4 and 5. Supporting documentation relating to the Treasury Management Strategy is detailed in Appendices 6 to 8.
- 9.3 Members are requested to:
- (a) Agree the revised Treasury Management Policy Statement and Clauses as set out within Appendices 1 and 2.
- (b) Agree the Prudential Indicators and Limits set out within Appendix 4:
- Capital Expenditure and Capital Financing Requirements (Tables A and B);
 - Actual and estimates of the ratio of financing costs to Net Revenue Stream (Table C);
 - Incremental impact of capital investment decisions on the Band D Council Tax (Table D); and
 - Incremental impact of capital investment decisions Housing Rent levels (Table E).
- (c) Approve the Treasury Management Strategy for 2012/13 to 2014/15 (including the Investment Strategy) contained within Appendix 5.

- (d) Agree the Treasury Prudential Indicators and Limits set out in Appendix 5:
- Operational Boundaries (Table G);
 - Authorised Limits (Table H);
 - Counterparty Limits (Table L); and
 - Treasury Management Limits on Activity (Table N).
- (e) Approve the statement by the Section 95 Officer regarding the net external debt level in comparison to the Capital Financing Requirement (Appendix 5 - Point 2.2).
- (f) Refer this report to the Audit and Performance Review Committee to ensure further scrutiny takes place.

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Date: 12 March 2012

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Appendices:

- 1 Treasury Management Policy Statement
- 2 Treasury Management Clauses
- 3 Treasury Management Role of the Section 95 Officer
- 4 Prudential Indicators 2011/12 to 2014/15
- 5 Treasury Management Strategy 2012/13 to 2014/15
- 6 Associated Controls and Limits
- 7 Counterparty Rating Explanations
- 8 Approved Countries for Investment

Background Papers: Treasury Management Annual Report – Council 24 March 2011

Wards Affected: All wards affected.