

WEST DUNBARTONSHIRE COUNCIL

Report by the Executive Director of Corporate Services

Council: 30 March 2011

Subject: Prudential Indicators 2010/11 to 2013/14 and Treasury Management Strategy 2011/12 to 2013/14

1. Purpose

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

- (a) Prudential Indicators for 2010/11 to 2013/14, and the
- (b) Treasury Management Strategy for 2011/12 to 2013/14

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 (the CIPFA Code of Practice on Treasury Management). The code requires an annual strategy to be reported to Council in advance of the forthcoming year outlining the expected treasury activity for the forthcoming 3 years. 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 activity during the year, including revised indicators where appropriate.
- (b) Year-end report on actual activity for the previous year.

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

- 2.4 The implication of Section 56 means that both the Prudential Indicators and the Treasury Management Strategy (including the Investment Strategy) are required to be approved by full Council before the start of the financial year.
- 2.5 The CIPFA Code of Practice requires greater Member scrutiny of the treasury policies, increased Member training and awareness and greater frequency of information.
- 2.6 The Council formally adopted four Treasury Management clauses as part of the Council's financial regulations on 24 March 2010. One of the key clauses is that a responsible body be responsible for ensuring effective scrutiny of the treasury management strategy and policies. Within West Dunbartonshire Council the appropriate body is the Audit and Performance Review Committee.
- 2.7 The Prudential Indicators 2010/11 to 2013/14 and Treasury Management Strategy 2011/12 to 2013/14 should be passed to Members of 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 I of this report details the Council's revised indicators for 2010/11, revises the indicators for 2011/12 and 2012/13 and introduces new indicators for 2013/14.
- 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 2011/12 is included as Appendix II 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 III, while credit rating type and definitions are attached as Appendix IV. Both of these appendices are unchanged from those approved by Members on 24 March 2010.
- 3.4 Securitisation of the Council's non operational property portfolio is mentioned as a local issue that may impact on the Council during 2011/12 and in future years (Appendix II – Section 12) and business case analysis is ongoing at the present time. Due to the uncertainty surrounding the final outcome of the project, the prudential and treasury indicators do not take account of this initiative at this time but will be updated (as appropriate) and reported to Members within the mid year report.

4. People Implications

- 4.1 There are no people implications.

5. Financial Implications

- 5.1** The prudential indicators detailed in Appendix I show the Council's likely capital financing for the period 2010/11 to 2013/14 while the treasury management indicators detailed in Appendix II show the likely borrowing requirement for the same period. In each year the net borrowing requirement is below the capital financing requirement

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 I and II.
- (a) Capital receipts which affect the capital financing and borrowing requirement will not materialise and borrowing will require to be increased as a result.
 - (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 will assist in mitigating this risk.
 - (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.

7. Equalities Impact Assessment

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

8. Conclusions and Recommendations

- 8.1** The Prudential Indicators for 2010/11 to 2013/14 and the Treasury Management Strategy for 2011/12 have been estimated using current information and are detailed in Appendix I and II.
- 8.2** Members are requested to:
- (d) Adopt the Prudential Indicators and Limits set out within Appendix I:
 - Capital Expenditure and Capital Financing Requirements (Tables A and B)
 - Actual and estimates of the ratio of financing costs to Net Revenue Stream (Table C)
 - Incremental impact of capital investment decisions on the Band D Council Tax (Table D)
 - Incremental impact of capital investment decisions Housing Rent levels (Table E)

- (e) Approve the Treasury Management Strategy 2011/12 (including the Investment Strategy 2011/12) contained within Appendix II.
- (f) Adopt the Treasury Prudential Indicators and Limits set out in Appendix II.
 - Operational Boundaries (Table F)
 - Authorised Limits (Table H)
 - Counterparty Limits (Table K)
 - Treasury Management Limits on Activity (Table M)
- (g) Approve the statement by the Executive Director of Corporate Services regarding the external borrowing level in comparison to the Capital Financing Requirement (Appendix II - Point 3.3).
- (h) Instruct that a copy of this report is passed to Members of the Audit and Performance Review Committee to ensure further scrutiny takes place.

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Date: 10 March 2011

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Appendices:

- I Prudential Indicators 2010/11 to 2013/14
- II Treasury Management Strategy 2011/12 to 2013/14
- III West Dunbartonshire Council and Common Good Funds Permitted Investments, Associated Controls and Limits
- IV Counterparty Rating Explanations

Background Papers: Treasury Management Annual Report – Council 24 March 2010

Wards Affected: All wards affected.