

WEST DUNBARTONSHIRE COUNCIL**Report by the Chief Officer - Resources****Audit Committee : 16 June 2021**

Subject: Prudential Indicators 2020/21 to 2030/31 and Treasury Management Strategy 2021/22 to 2030/31

1. Purpose

1.1 Following approval at Council on 4 March 2020, the purpose of this report is to provide Members with the opportunity to further scrutinise the Prudential Indicators for 2020/21 to 2023/24 and Treasury Management Strategy (including the Investment Strategy) for 2021/22 to 2023/24 and the indicative indicators for the period to 2030/31.

2. Recommendations

2.1 Members are asked to note that Council:

- (a) Agreed the following Prudential Indicators and Limits discussed in Appendix 1 and set out within Appendix 6 for the period 2020/21 to 2023/24:
 - 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) Approved the policy for loans fund advances discussed in Appendix 1 in section 3;
- (c) Approved the Treasury Management Strategy for 2021/22 to 2023/24 (including the Investment Strategy) contained within Appendices 2 to 6;
- (d) Agreed the following Treasury Prudential Indicators and Limits discussed in Appendix 2 and set out within Appendix 6 for the period 2021/22 to 2023/24:
 - Operational Boundaries (Table F);
 - Authorised Limits (Table G);
 - Counterparty Limits (Table J); and
 - Treasury Management Limits on Activity (Table L);
- (e) Noted the draft Prudential and Treasury Management Indicators for the period 2024/25 to 2030/31 discussed in Appendices 1 and 2 and set out within Appendix 6;
- (f) Approved 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) Noted the report would 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 policies, 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 policies. Within West Dunbartonshire Council the body identified to fulfil this role is the Audit Committee.

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 2020/21, revises the indicators for 2021/22 to 2023/24 and projects the indicators to 2030/31, with those for the period 2024/25 to 2030/31 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 2021/22 to 2030/31 is included in Appendix 6 (with the period 2024/25 to 2030/31 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 2020 reported a change to financial Regulations regarding leasing. The change has since been postponed and is now due to change on 1 April 2022.

4.5 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 2022. 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, 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.

4.6.1 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 (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.

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 2020/21 to 2030/31 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 2021/22 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 May2021

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Appendices:

- 1 Prudential Indicators 2020/21 to 2030/31
- 2 Treasury Management Strategy 2021/22 to 2030/31
- 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 4 March 2020
Treasury Mid-year update – Council 16 December 2020
Budget Update – Council 24 February 2021
Budget Update – Council 3 March 2021
Treasury Management Strategy Statement and Annual
Investment Strategy (Link February 2021)
Scotland’s Economic and Fiscal Forecasts (Fiscal
Commission Scotland January 2021)

Wards Affected: All wards affected.