

WEST DUNBARTONSHIRE COUNCIL

Report by the Executive Director of Corporate Services

Council: 27 March 2013

(REISSUED FOR MEETING OF AUDIT & PERFORMANCE REVIEW COMMITTEE
ON 22 MAY 2013)

**Subject: Prudential Indicators 2012/13 to 2015/16 and Treasury
Management Strategy 2013/14 to 2015/16**

1. Purpose

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

- (a) Prudential Indicators for 2012/13 to 2015/16; and
- (b) Treasury Management Strategy (including the Investment Strategy) for 2013/14 to 2015/16.

2. Recommendations

2.1 Council is requested to:

- (a) Agree the Prudential Indicators and Limits set out within Appendix 1:
 - 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).
- (b) Approve the Treasury Management Strategy for 2013/14 to 2015/16 (including the Investment Strategy) contained within Appendix 2.
- (c) Agree the Treasury Prudential Indicators and Limits set out in Appendix 2:
 - Operational Boundaries (Table G);
 - Authorised Limits (Table H);
 - Counterparty Limits (Table K); and
 - Treasury Management Limits on Activity (Table M).
- (d) Approve the statement by the Section 95 Officer regarding the gross debt level in comparison to the Capital Financing Requirement (Appendix 2 - Point 2.2).

- (e) Refer this report to the Audit and Performance Review Committee to ensure further scrutiny takes place.

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** 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.
- 3.3** 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 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 2003 Act.
- 3.4** 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.
- 3.5** 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.
- 3.6** 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 and Performance Review Committee.
- 3.7** The Prudential Indicators 2012/13 to 2015/16 and Treasury Management Strategy 2013/14 to 2015/16 should be referred to the Audit and Performance Review 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 1 of this report details the Council's expected year end indicators for 2012/13, revises the indicators for 2013/14 and 2014/15 and introduces new indicators for 2015/16.
- 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 2013/14 to 2015/16 is included as Appendix 2 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.
- 4.4** The proposals around the Securitisation of the income from the Council's non-operational property portfolio is mentioned as a local issue that may impact on the Council during 2013/14 and in future years (Appendix 2 – section 12). This proposal is on hold until December 2013 and due to the uncertainty surrounding the final outcome of this project the prudential and treasury indicators does not take account of this initiative at this time but will be updated and reported to Members within the mid-year report (as appropriate).

5. People Implications

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

6. Financial Implications

- 6.1** The prudential indicators detailed in Appendix 1 show the Council's likely capital financing for the period 2012/13 to 2015/16 while the treasury management indicators detailed in Appendix 2 show the likely borrowing requirement for the same period. In each year the gross borrowing requirement is below the capital financing requirement (Appendix 2 – section 2.1 and 2.2).
- 6.2** 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. Risk Analysis

7.1 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.

8. Equalities Impact Assessment

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

9. Consultation

9.1 Legal and finance have been consulted in relation to this report and appendices

10. Strategic Assessment

10.1 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.

10.2 Treasury management contributes to all categories via the interdependency that exists between pro-active treasury management and the formulation of long term financial plans which assist in helping the Council achieve and develop these priorities.

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Date: 22 February 2013

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Appendices:

- 1 Prudential Indicators 2012/13 to 2015/16
- 2 Treasury Management Strategy 2013/14 to 2015/16
- 3 West Dunbartonshire Council and Common Good Funds Permitted Investments, Associated Controls and Limits
- 4 Counterparty Rating Explanations
- 5 Approved Countries for Investment

Background Papers: Treasury Management Annual Report – Council 28
March 2012

Wards Affected: All wards affected.