Renfrewshire Council

To: Council

On: 3 March 2016

Report by: Director of Finance & Resources

Heading: Non Housing Capital Investment Programme 2016/17 – 2018/19

1. Summary

1.1 This report details the planned capital investment for non housing services which covers children's services, leisure, community resources, planning, roads and a range of corporate projects. The resources available to support investment include, prudential borrowing and capital grants as well as contributions from revenue, partners and external funding bodies.

1.2 On the 16 December 2015 the Scottish Government published the draft Scottish Government budget for 2016/17 which is subject to parliamentary approval on 24th February. Also on this day, the Cabinet Secretary for Finance, Constitution and Economy announced the provisional local government finance settlement which is subject to parliamentary approval on 25th February. The finance settlement confirmed the total capital grant to be paid to Renfrewshire Council in 2016/17 of £12.672 million, a decrease of 35% from 2015/16 levels. The Cabinet Secretary has also opted to defer £3.231 million of capital grant to the next settlement period, providing a total capital grant settlement £15.903 million for the Council of which £0.240 million relates to cycling and walking safer streets specific grant. Taking this deferred element into account, the reduction remains significant at 19%.

1.3 At present there are no Scottish Government budget figures published beyond 2016/17 at individual portfolio level. However the Scottish Government have provided indicative high level budget figures over the medium term period through to 2019/20 which outline sustained growth in capital expenditure levels each year, with total growth of 12% between 2016/217 and 2019/20. These figures reflect the intention of the Scottish Government, if re-elected, to continue to utilise the full extent of capital borrowing available under devolved powers and have also indicated a commitment for local government's share of the capital resource to be maintained over this period. Should the indicative capital spend profile be achieved over the medium term, there remains the prospect that local government may see an increase in future capital grant levels in contrast to an expectation of a sustained decline in revenue grant. However, it should be recognised that at this stage these figures remain only indicative, that firm planning figures over the medium term are not expected to be confirmed by an incoming Scottish Government until the second half of 2016 and that

uncertainty exists due a range of potential factors that may influence the scale of capital resources available to the Scottish Government.

1.4 In this context therefore it is proposed that the Council continues to operate an appropriately prudent approach given this uncertainty and restricts any new capital investment commitments that have to be funded by capital grant to the grant settlement level which is currently known. It should be noted that the capital plan extends beyond 2016/17 reflecting approved programmes already in place which are funded by other arrangements including prudential borrowing or specific funding related to the City Deal. It should be further noted that this approach does not preclude the Council taking further investment decisions as part of the budget process where separate funding from arrangements from capital grant are established.

2. Recommendations

2.1 It is recommended that the Council:

2.1.1 Approves the investment programme covering the period up to 2018/19 as summarised in Table 2 of the report, and detailed in Appendices 1-5 attached.

2.1.2 Notes the ongoing uncertainty in relation to the Council's capital grant funding position beyond 2016/17 and that no assumptions are included within the planned programme beyond this financial year in respect to future grant levels, with the exception of the £3.231 million deferred by the Scottish Government from 2016/17 to a future settlement.

2.1.3 Notes that, subject to the approval of the proposed investment programme, there are uncommitted resources of £7.300m million held in the Strategic Asset Management Fund, available for allocation to new investment priorities for the Council.

2.1.4 Delegates to the Head of Property Services, in consultation with the Director of Finance and Resources, authority to adjust where appropriate resources across individual components of the lifecycle maintenance programme.

2.1.5 Approve the suite of prudential indicators set out in Appendix 6 to this report, subject to any required adjustments arising from decisions taken by the Council in relation to the capital and revenue reports being presented to this Council meeting.

2.1.6 Approve the treasury management strategy for 2016/17, including the treasury management indicators, set out in Appendix 6 to this report.

2.1.7 Consider the equality impact of any decisions being taken by members relating to the recommendations outlined in 2.1.1 to 2.1.6 above.

3. Overview of Capital Resources and Current Programme

3.1 Given there is no visibility of capital grant funding for local government beyond 2016/17, the updating of the capital programme outlined in this report focuses on the 2016/17 financial year**.** It is against this background that this report is presented and which includes:

- Confirmation of the roll forward of projects already approved as part of the existing Capital Investment Plan. This includes the major projects already underway as part of the existing investment programme.

- In line with the Council's agreed medium term financial planning principles £10.650 million of general capital grant for 2016/17 is directed in the first instance to maintain the delivery of the Council's rolling lifecycle maintenance programmes across the Council's key asset classes as follows:

  - the life cycle maintenance programme for the Council's property portfolio (£4 million);

  - maintaining the annual replacement programme for the Council's vehicle fleet (£1.5 million);

  - maintenance programmes for the Council's transport infrastructure covering roads & footpaths (£2.6 million), and bridges (£0.5 million). It should be noted that the roads programme would support a steady state and would not deliver any material improvement in the overall measured condition of the roads infrastructure.

  - £1.150 million of capital grant to investment in support lighting columns. As approved by Council in June 2015, these resources coupled with prudential borrowing are being utilised in 2016/17 to support investment of £11m to deliver a major stepped change investment in the lighting stock through a large scale programme replacing existing lighting with significantly more efficient LED lights.

  - maintaining delivery of the private sector housing programme (£0.9 million funded from general capital grant, with an additional £0.3m funded from CFCR).

- Unallocated capital resource held within the Strategic Asset Management Fund (SAMF), which is available for consideration and direction to priority investment areas.

3.2 Table 1 and Table 2 below provides a high level summary of the current resources and investment programmes over this period with full details outlined in Appendices 1 -5.

Table 1: Resource Availability 2016/17 - 2018/19

Project Title	Programme 2016/17 £000s	Programme 2017/18 £000s	Programme 2018/19 £000s
Prudential Borrowing	43,577	16,020	5,255
TOTAL BORROWING	**43,577**	**16,020**	**5,255**
Specific Grant	191	49	0
General Capital Grant	12,481	3,182	0
Usable Capital Receipts	10,716	9,310	33,182
C.F.C.R.	12,652	1,780	1,040
Total Resource Availability	**79,617**	**30,341**	**39,477**

Table 2: Programme 2016/17 - 2018/19

Project Title	Programme 2016/17 £000s	Programme 2017/18 £000s	Programme 2018/19 £000s
Major Programmes			
Schools Estate Programme*	29,030	15,600	4,495
Leisure Estate	5,250	0	0
Russell Institute	2,500	0	0
Street Lighting Investment Strategy	9,850	0	0
Transformation & ICT	3,199	400	400
Private Sector Housing Programe	1,200	0	0
City Deal	7,072	9,310	33,182
Museum Store	3,157	0	0
Townscape Heritage 2	1,636	0	0
Asset Lifecycle Maintenance Programmes			
Vehicle Replacement	1,500	0	0
Roads & Footpaths**	3,191	449	400
Bridges	1,400	0	0
Lighting Columns	1,150	0	0
Waste Transfer Station Upgrade	0	400	0
Buildings Capital Lifecycle	4,000	1,000	1,000
Tackling Poverty	1,364	0	0
Strategic Asset Management Fund - unallocated	4,118	3,182	0
Total Planned Spend	**79,617**	**30,341**	**39,477**

3.3 Strategic Asset Management Fund

As detailed in table 2 above, there is £7.300 million of unallocated resources currently held in the Strategic Asset Management Fund (SAMF). These available resources are linked to:

- £5.013 million of capital grant which would remain unallocated after taking account of the proposed programme;
- £1.144 million of capital receipts from asset disposals secured during previous years
- £1.143 of resources released from confirmed under-spends on completed projects

4. Lifecycle Maintenance of Existing Assets

4.1 As indicated earlier in this report, the Council has committed to a financial planning principle that capital grant resources would be directed in the first instance to supporting appropriate lifecycle maintenance programmes to protect the Council's existing assets and infrastructure. Annual lifecycle investment across the Council's key asset classes during 2016/17 is included within the capital programme detailed in Appendix 3.

Property Lifecycle Maintenance

4.2 The Council's property portfolio was predominantly built prior to statutory and health and safety legislation and guidance and as such the current identified priorities continue to focus primarily on undertaking investment to improve health and safety standards, compliance with statutory duties and improving energy efficiency across the property portfolio. In addition, priority investment is also required to deliver further access improvements within Council properties. A summary programme, reflecting those projects considered to be of the highest priority is outlined in Appendix 4.

4.3 It is recognised that a sufficient degree of flexibility in the management of the lifecycle maintenance fund is required to allow resources to be directed in a timely and appropriate manner to address changing priorities that may emerge. It is therefore proposed that as in previous years, the Head of Property Services, in consultation with the Director of Finance and Resources, is delegated authority to adjust the allocation of resources within this proposed programme, with appropriate reporting to the Finance and Resources Policy Board.

Roads & Footpaths

4.4 The proposed investment level detailed in this report for 2016/17 will provide a broadly standstill level of condition across the network. However, members should note that as has been previously recognised, the Council's road network, as is common across Scotland, has a significant level of backlog maintenance requirements. Appendix 5 provides a breakdown of the proposed use of the resources across key programmes for 2016/17.

Streetlighting and Bridges & Other Road Structures

4.5 Over recent years the Council has supported a regular annual lifecycle maintenance programme across lighting columns and other road structures in recognition of the need to continually invest in lifecycle maintenance in order to maintain condition across the stock.

4.5 Council agreed in June 2015 to a significant investment in streetlighting, replacing the current largely sodium-vapour lights with more energy efficient LED lighting. This investment was predicated on savings from both lighting maintenance and electricity being utilised to fund the borrowing costs associated with the investment. Based on the business case costs, total funding of £11m was approved, funded by both borrowing and the application of capital lifecycle maintenance resources.

4.6 Similar to the Council's property portfolio, a maintenance backlog has historically existed across the bridges structures portfolio. Progress has however been made over recent years with a range of significant bridge improvement projects and therefore as previously advised to Council a reassessment of funding required for future maintenance has been undertaken. This reassessment has concluded that £0.5 million is sufficient to fund ongoing bridges and structures maintenance. An additional £0.9m has been deferred from 2015/16 in relation to Lochwinnoch Bridge.

Vehicle & Plant Replacement Strategy

4.7 The Council has invested approximately £1.5 million per annum over recent years to support a vehicle replacement strategy. Continued investment at this level is required in order to sustain planned vehicle replacement cycles and maintain the ability of the existing vehicle & plant fleet to meet the needs of services and mitigate against increased revenue pressures arising from additional maintenance and temporary hire costs due to increased vehicle failure rates.

Private Sector Housing Grant (PSHG)

4.8 The PSHG is utilised to support a range of support programmes for private sector housing owners and is funded through a mix of revenue and capital funding. A priority component of this programme has been to support owner occupiers in meeting the costs of common works being delivered in mixed tenure blocks as part of the housing business case investment programme.

5. Prudential Framework for Capital Finance and Treasury Management Strategy 2016/17

5.1 The Local Government in Scotland Act 2003 and supporting regulations require local authorities to have regard to the following codes of practice issued by the Chartered Institute of Public Finance and Accountancy (CIPFA):

- The Prudential Code for Capital Finance in Local Authorities ("the Prudential Code");
- Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes ("the Treasury Management Code").

5.2 The Prudential Code & Treasury Management Code play a key role in capital finance in local authorities. Local authorities determine their own programmes for capital investment in assets that are central to the delivery of services. The Prudential Code and Treasury Management Code were developed to support local authorities in taking decisions relevant to their capital investment plans.

5.3 Their key objectives are to ensure that:

- capital investment plans are affordable, prudent and sustainable;
- treasury management decisions are taken in accordance with professional practice and support affordability, prudence and sustainability;
- capital investment decisions are consistent with, and support, local strategic planning, local asset management planning and proper option appraisal.

5.4 The Prudential Code and the Treasury Management Code require the Council to set prudential and treasury management indicators for the following three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

5.5 In addition, the Treasury Management Code further requires the Council to approve, annually in advance, a strategy for its treasury management activities. This strategy sets out the Council's policies and plans for the year ahead in relation to the management of cash flows, money market transactions and capital market transactions (including borrowing and investing), the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks.

5.6 Attached at Appendix 6 to this report are full details of the Council's prudential indicators for 2016/17 and treasury management strategy for 2016/17 based upon the details outlined in this report.

6. Equalities

6.1 Where the Council is making decisions in relation to its spending priorities, it is obliged to comply with the public sector equality duty set out in the Equalities Act 2010. This means that the Council must have due regard to the need to:

- Eliminate unlawful discrimination, harassment and victimisation and other prohibited conduct
- Advance equality of opportunity between people who share a relevant characteristic and those who do not; and
- Foster good relations between people who share a protected characteristic and those who do not.

6.2 To meet this requirement, where necessary the Council must assess the impact of applying a new policy or decision against these three "needs" and at the point where a decision is made elected members must have sufficient information available to it to assess that impact. Members in considering their capital investment proposals prior to presentation at the Council meeting, are therefore encouraged to seek advice from Directors on the equality implications of each proposal.

2016/17 – 2018/19 Capital Investment Programme Resources

Project Title	Programme 2016/17 £000s	Programme 2017/18 £000s	Programme 2018/19 £000s
Prudential Borrowing	43,577	16,020	5,255
TOTAL BORROWING	**43,577**	**16,020**	**5,255**
Specific Grant	191	49	0
General Capital Grant	12,481	3,182	0
Usable Capital Receipts	10,716	9,310	33,182
C.F.C.R.	12,652	1,780	1,040
Total Resource Availability	**79,617**	**30,341**	**39,477**

2016/17 – 2018/19 Capital Investment Programme Summary

Department	Revised Programme 2016/17	Revised Programme 2017/18	Revised Programme 2018/19
Childrens Services	29,030	15,600	4,495
Leisure Services	5,250	0	0
Community Resources	17,091	849	400
Development & Housing Services	14,365	9,310	33,182
Corporate Projects	12,681	4,582	1,400
Private Sector Housing Grant	1,200	0	0
TOTAL GENERAL SERVICES PROGRAMME	**79,617**	**30,341**	**39,477**

Appendix 3

2016/17 – 2018/19 Capital Programme

CHILDRENS SERVICES

Project Title	Revised Programme 2016/17	Revised Programme 2017/18	Revised Programme 2018/19
Early Years Estate Programme	2,100	0	0
Primary Schools Estate Programme(SEMP)			
Phase 1a			
Mossvale/St James PS Refurb & Extension	3,794	0	0
Phase 1b			
St Fergus PS - New Build	3,587	2,662	0
St John Bosco/Bargarran PS - Refurb Shared Campus & Extended Nursery Provision	8,216	7,592	0
St Paul's PS/Foxlea Nursery Co-location/Refurb	2,140	4,947	679
St Anthony's PS/Spateson Pre 5 Co-location/ Refurb	0	0	3,416
Primary School Estate Programme Sub-Total	**17,737**	**15,200**	**4,095**
Other Schools Investment Programmes			
New Linwood School	8,793	0	0
TOTAL SCHOOLS INVESTMENT PROGRAMME	**28,630**	**15,200**	**4,095**
OTHER PROGRAMMES			
Technology Replacement Strategy ICT	400	400	400
TOTAL CHILDRENS SERVICES PROGRAMME	**29,030**	**15,600**	**4,495**

LEISURE SERVICES

Project Title	Revised Programme 2016/17	Revised Programme 2017/18	Revised Programme 2018/19
OTHER PROGRAMMES			
Grass Pitches & Changing Facilities	2,250	0	0
Community Halls & Facilities Improvement Programme	3,000	0	0
TOTAL LEISURE SERVICES PROGRAMME	**5,250**	**0**	**0**

Appendix 3

2016/17 – 2018/19 Capital Programme

COMMUNITY RESOURCES

Project Title	Revised Programme 2016/17	Revised Programme 2017/18	Revised Programme 2018/19
PROGRAMME FUNDED BY SPECIFIC CONSENT			
Cycling, Walking & Safer Streets - Outwith Travel Plans	191	49	0
Total Programme Funded By Specific Consent	191	49	0
ASSET LIFECYCLE MAINTENANCE PROGRAMMES			
Vehicle Replacement Programme	1,500	0	0
Bridge Assessment/Strengthening	1,400	0	0
Roads/Footways Upgrade Programme	3,000	400	400
Lighting Columns Replacement	1,150	0	0
Waste transfer station upgrade	0	400	0
OTHER MAJOR PROGRAMMES			
Street Lighting Investment Strategy	9,850	0	0
TOTAL COMMUNITY RESOURCES PROGRAMME	**17,091**	**849**	**400**

Appendix 3

2016/17 – 2018/19 Capital Programme

DEVELOPMENT & HOUSING

Project Title	Revised Programme 2016/17	Revised Programme 2017/18	Revised Programme 2018/19
PAISLEY TOWN CENTRE REGENERATION			
Major Projects	124	0	0
Total Paisley Town Centre Regeneration	**124**	**0**	**0**
CITY DEAL			
Airport Access	918	674	1,500
Glasgow Airport Investment Area	2,769	3,153	6,579
Clyde Waterfront & Renfrew Riverside	3,385	5,483	25,103
Total CITY DEAL	**7,072**	**9,310**	**33,182**
OTHER PROGRAMMES			
Townscape Heritage Initiative	1,512	0	0
Russell Institute	2,500	0	0
Museum Store	3,157	0	0
TOTAL DEVELOPMENT & HOUSING PROGRAMME	**14,365**	**9,310**	**33,182**

CORPORATE PROJECTS

Project Title	Revised Programme 2016/17	Revised Programme 2017/18	Revised Programme 2018/19
ICT PROGRAMME			
ICT Infrastructure Maintenance & Renewal Programme	400	400	400
ICT Corporate Change Programme	2,799	0	0
Total ICT Programme	**3,199**	**400**	**400**
OTHER CORPORATE COMMITTMENTS			
Strategic Asset Management Fund	4,118	3,182	0
Lifecycle Capital Maintenance (LCM) Fund	4,000	1,000	1,000
Anti-poveryt/Digital Services Improvement Programme	1,364	0	0
TOTAL CORPORATE PROJECTS PROGRAMME	**12,681**	**4,582**	**1,400**

Appendix 3

2016/17 – 2018/19 Capital Programme

PRIVATE SECTOR HOUSING GRANT

Project Title	Revised Programme 2016/17	Revised Programme 2017/18	Revised Programme 2018/19
PRIVATE SECTOR HOUSING GRANT PROGRAMME			
General PSHG Programme	1,200	0	0
TOTAL PSHG PROGRAMME	**1,200**	**0**	**0**

Appendix 4

Property Lifecycle Maintenance Programme 2016 - 17

	2016/17 £m
Minor Works & Roofing Programme	1.100
Energy Programme	0.080
Fire Risk Works – compliance with Fire Safety legislation following inspections	0.050
Asbestos Works – compliance with Asbestos legislation following inspections	0.050
Electrical Installations Works – compliance with Electrical testing inspections	1.900
Gas Installations Works – compliance with Gas testing inspections	0.700
Demolitions – Various locations	0.035
Office Accommodation	0.035
Design and Pre Contract Works Allocation	0.050
TOTAL	**4.000**

Appendix 5

Roads & Footpaths Lifecycle Maintenance Programme 2016 - 17

	2016/17 £m
Patching programme in advance of future surface dressing programmes	0.250
Footway Resurfacing	0.300
Carriageway Resurfacing	2.000
Drainage Improvements	0.200
Defect Patching	0.250
Walking, Cycling and Safer Streets	0.191
Total	**3.191**

Appendix 6

Prudential Framework for Capital Finance 2016/17 – 2018/19 and

Treasury Management Strategy 2016/17

Prudential Framework for Capital Finance 2016-2019 (estimates) and Treasury Management Strategy Statement 2016-2017

1. Summary

1.1 The Local Government in Scotland Act 2003 and supporting regulations require local authorities to have regard to the following codes of practice issued by the Chartered Institute of Public Finance and Accountancy (CIPFA):

- The Prudential Code for Capital Finance in Local Authorities ("the Prudential Code");
- Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes ("the Treasury Management Code").

1.2 The revised 2009 edition of the Treasury Management Code was adopted by the General Management and Finance Policy Board of 3 March 2010.

1.3 The Prudential Code and the Treasury Management Code require the Council to set prudential and treasury management indicators for the following three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

1.4 The Treasury Management Code further requires Council to approve, annually in advance, a strategy for its treasury management activities. This strategy (at sections 8 to 12 of this report) sets out the Council's policies and plans for the year ahead in relation to the management of cash flows, money market transactions and capital market transactions (including borrowing and investing), the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks.

2. Prudential framework for capital finance: purpose, governance and affordability considerations

2.1 The Prudential Code plays a key role in capital finance in local authorities. Local authorities determine their own programmes for capital investment in fixed assets that are central to the delivery of quality services. The Prudential Code was developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) as a professional code of practice to support local authorities in taking decisions relevant to their capital investment plans.

2.2 The key objectives of the Prudential Code are to ensure that:

- the capital investment plans are affordable, prudent and sustainable;
- treasury management decisions are taken in accordance with good professional practice and support affordability, prudence and sustainability;

- capital investment decisions are consistent with, and support, local strategic planning, local asset management planning and proper option appraisal.

2.3 To demonstrate that local authorities have fulfilled these objectives, the Prudential Code sets out the indicators that must be used and the factors that must be taken into account. The Prudential Code does not include suggested indicative limits or ratios – these are for the Council to set itself.

2.4 The prudential indicators required by the Prudential Code are designed to support and record local decision-making. They are not designed to be comparative performance indicators, and the use of them in this way would be likely to be misleading and counter-productive. In particular, local authorities have widely different debt positions and these differences are likely to increase over time as the result of the exercise of local choices. The system is specifically designed to support such local decision-making in a manner that is publicly accountable.

2.5 The Prudential Code sets out a clear governance procedure for the setting and revising of prudential indicators. This will be done by the same body that takes the decisions for the Council's budget, that is, the full Council. The chief finance officer is responsible for ensuring that all matters required to be taken into account are reported to the decision-making body for consideration, and for establishing procedures to monitor performance.

2.6 Prudential indicators for previous years will be taken directly from information in the Council's Annual Accounts. If any item within the Accounts that is relied upon for a prudential indicator is the subject of audit qualification, this must be highlighted when the prudential indicators are set out or revised.

2.7 The Local Government in Scotland Act 2003 refers to affordability. The Council must consider the affordability of its capital investment during all of the years in which it will have a financial impact on the Council. In doing so, the Council needs to pay due regard to risk and uncertainty. Risk analysis and risk management strategies should be taken into account. The Prudential Code also requires local authorities to have regard to wider management processes (option appraisal, asset management planning, strategic planning and achievability) in accordance with good professional practice.

2.8 The fundamental objective in the consideration of the affordability of the Council's capital plans is to ensure that the total capital investment of the Council remains within sustainable limits, and in particular to consider its impact on the Council's 'bottom line' council tax. Affordability is ultimately determined by judgement about acceptable council tax levels and, in the case of the Housing Revenue Account, acceptable rent levels.

2.9 In considering the affordability of its capital plans, the Council is required to consider all of the resources currently available to it and estimated for the future, together with the totality of its capital plans, revenue income and revenue expenditure forecasts for the forthcoming year and the following two years. The Council is also required to consider known significant variations beyond this time frame. This requires the development of three-year revenue forecasts as well as three-year capital investment plans. The capital plans are rolling scenarios, not fixed for three years.

2.10 Prudential indicators in respect of external debt must be set and revised taking into account their affordability. It is through this means that the objectives of sustainability and prudence are addressed year on year.

2.11 It is also prudent that treasury management is carried out in accordance with good professional practice. The Prudential Code requires compliance with the Treasury Management Code.

2.12 A soundly formulated capital programme must be driven by the desire to provide high quality, value-for-money public services. The Prudential Code recognises that in making its capital investment decisions the Council must have explicit regard to option appraisal, asset management planning, strategic planning for the Council and achievability of the forward plan.

2.13 The Prudential Code does not specify how the Council should have regard to these factors. All of them represent elements of good practice for which guidance has already been provided by CIPFA and other authoritative sources. The Prudential Code instead concentrates on the means by which the Council will demonstrate that its proposals are affordable, prudent and sustainable.

2.14 The Prudential Code promotes transparency in decision-making by using information contained within the Council's Statement of Accounts and by having definitions for prudential indicators that are consistent with the definitions used within the Accounts.

3. Prudential framework for capital finance: prudential indicators for capital expenditure

3.1 **Capital expenditure**

Capital expenditure is defined in the CIPFA *Code of Practice on Local Authority Accounting in the United Kingdom 2015/16* and must be consistent with financial reporting standards for accounting purposes. In addition, under the Local Government in Scotland Act 2003, local authorities have a duty to observe proper accounting practices.

3.2 Under section 35(1) of the Local Government in Scotland Act 2003, it is the duty of the Council to determine and keep under review the maximum amount which it can afford to allocate to capital expenditure.

3.3 The Council is required to make estimates of the capital expenditure it plans to incur for the forthcoming financial year and at least the following two years, and to keep these estimates under review. Separate estimates should be made for the Housing Revenue Account ("housing") and for General Fund ("non-housing") services. Details in relation to the planned investment programmes for non-housing services are presented on the agenda to this Council meeting (the housing investment plan having been approved at the Council meeting on 25 February 2016), and take account of the capital resources that, at this stage, are known will be made available to the Council from the Scottish Government in 2016/17 and the updated long term housing business case in relation to housing services.

3.4 In addition to the approved capital investment plans, there may be projects which emerge throughout the year which will take advantage of the opportunities arising from the flexibility offered by the Prudential Code, and as a consequence the capital expenditure totals may change. Any required changes to the prudential indicators arising from new projects will be considered as part of the reports presented to Policy Boards or to the Council. This includes any associated changes arising from the approval by the Council of business case proposals for projects arising from the City Deal project. It is recommended that the Council approves the following as the indicator for capital expenditure for the next three financial years:

Capital expenditure	2016-2017 estimate £m	2017-2018 estimate £m	2018-2019 estimate £m
Non-housing	79.617	30.341	39.477
Housing	14.230	21.090	16.770
Total	**93.847**	**51.431**	**56.247**

3.5 The capital investment plans are to be funded from various sources, such as general and specific capital grants, contributions from revenue resources and secured capital receipts, as well as long-term borrowing. As a direct consequence of managing the risk in relation to the disposal of surplus land, and in line with practice adopted in previous years, there is no reliance on the funding of the capital investment plans from unrealised capital receipts.

3.6 After the year-end, the actual capital expenditure incurred during the financial year will be recorded for housing and for non-housing programmes. These figures will be included in the Council's Annual Accounts, with explanations of significant variations from expectations. The actual capital expenditure incurred in 2014-2015 was £66.348million.

3.7 **Capital financing requirement**

Local authorities have available to them a number of ways of financing traditionally procured capital investment. The term “financing” does not refer to the payment of cash, but the resources that are applied to ensure that the underlying amount arising from capital payments is dealt with absolutely, whether at the point of spend or over the longer term. A number of financing options that are available to local authorities involve resourcing the investment at the time that it is incurred. These are:

- the application of usable capital receipts;
- a direct charge to revenue for the capital expenditure;
- the application of capital grants;
- up-front contributions from project partners.

3.8 Capital expenditure which is not financed up front by one of the above methods will increase the capital financing requirement of the Council. It has often been referred to as “capital expenditure financed by borrowing”, however this is incorrect as borrowing provides the cash, not the resource, since borrowing has to be repaid. Also, “borrowing” in this context does not necessarily imply external debt since, in accordance with best professional practice, the Council has an integrated treasury management strategy and therefore does not associate borrowing with particular items or types of expenditure. The Council will at any point in time have a number of cash flows both positive and negative and will be managing its position in terms of its borrowing and investments in accordance with its treasury management strategy.

3.9 In measuring external debt, as detailed in section 4, the Prudential Code encompasses all borrowing, whether for a capital or for a revenue purpose. In day-to-day cash management no distinction is made between ‘revenue cash’ and ‘capital cash’. External borrowing arises as a consequence of all the financial transactions of the Council and not simply those arising from capital spending. In contrast, the capital financing requirement reflects the Council’s underlying need to borrow for a capital purpose.

3.10 The Council is required to make reasonable estimates of its capital financing requirement at the end of the forthcoming financial year and the following two years, showing separately figures for housing and non-housing, and keep this under review. The capital financing requirement will increase whenever capital expenditure is incurred. If this capital expenditure is resourced immediately, through usable capital receipts, direct financing from revenue or application of capital grants/contributions, then the capital financing requirement will reduce at the same time that the capital expenditure is incurred, resulting in no net increase to the capital financing requirement. The capital financing requirement also will be reduced by charges to the revenue account in respect of past capital expenditure or where the Council may initiate voluntary early charges to revenue as part of longer term financial planning decisions. Where capital expenditure is not resourced immediately, this will result in a net increase to the capital financing requirement that represents an increase in the underlying need to borrow for a capital purpose. This will be the case whether or not external borrowing actually occurs.

3.11 It is recommended that the Council approves the following as the indicator for the capital financing requirement at the end of each of the next three financial years:

Capital financing requirement	**31 March 2017 estimate £m**	**31 March 2018 estimate £m**	**31 March 2019 estimate £m**
Non-housing	228	234	229
Housing	150	157	159
Total	**378**	**391**	**388**

3.12 After the year-end, the actual capital financing requirement as at the year-end will be calculated for housing, for non-housing and the total of the two. These figures will be included in the Council's Annual Accounts, with explanations for significant variations from expectations. At 31 March 2015 the capital financing requirement was £367.573million.

4. Prudential framework for capital finance: prudential indicators for external debt

4.1 External debt is referred to as the sum of external borrowing and other long-term liabilities (such as finance leases). The prudential indicators for external debt must be set and revised taking into account their affordability. It is through this means that that the objective of ensuring that external debt is kept within sustainable prudent limits is addressed year on year.

4.2 External debt indicators are at two levels: an *operational boundary* and an *authorised limit*. Both of these need to be consistent with the Council's plans for capital expenditure and financing, and with its treasury management policy statement and practices.

4.3 **Operational boundary**
This is the focus of day-to-day treasury management activity within the Council, and is an estimate of the most likely, but not worst case, scenario in terms of cash flow. Risk analysis and risk management strategies have been taken into account, as have plans for capital expenditure, estimates of the capital financing requirement and estimates of cash flow requirements for all purposes. It is possible that this boundary could be breached occasionally and this should not be regarded as significant. However, a sustained or regular trend would be significant and would require investigation and action.

4.4 The Council is required to set for the forthcoming financial year and the following two years an operational boundary for its total external debt (gross of investments), identifying separately borrowing from other long-term liabilities. It is recommended that the Council approves the following as the indicator for the operational boundary over the three-year period 2016-2017 through 2018-2019:

Operational boundary for external debt	**2016-2017 £m**	**2017-2018 £m**	**2018-2019 £m**
Borrowing	298	314	314
Other long-term liabilities	80	77	74
Total	**378**	**391**	**388**

4.5 **Authorised limit**
This is based on the same assumptions as the operational boundary, with sufficient "headroom" to allow for unusual/exceptional cash movements. Headroom has been added to the operational boundary to arrive at an authorised limit which is sufficient to allow for cash flow management without breaching the limit.

4.6 The authorised limit will be reviewed on an annual basis and any changes will require approval by Council.

4.7 The Council is required to set for the forthcoming financial year and the following two years an authorised limit for its total external debt (gross of investments), identifying separately borrowing from other long-term liabilities. It is recommended that the Council approves the following as the indicator for the authorised limit over the three-year period 2016-2017 through 2018-2019:

Authorised limit for external debt	**2016-2017 £m**	**2017-2018 £m**	**2018-2019 £m**
Borrowing	312	328	328
Other long-term liabilities	80	77	74
Total	**392**	**405**	**402**

4.8 After the year-end, the balance of actual external debt as at the year-end will be calculated and reported to Council, with borrowing and other long-term liabilities being shown separately.

4.9 The Council's actual external debt at 31 March 2015 was £310.660million of which £225.557million related to borrowing and £85.103million to outstanding obligations on finance leases.

4.10 The actual external debt is not directly comparable to the authorised limit nor to the operational boundary, since the actual external debt reflects the position at one point in time. In addition, the external debt indicators are set based on the Council's potential external borrowing requirements for capital investment purposes. However, as part of the ongoing treasury management strategy the Council may utilise internal borrowing where it is deemed appropriate to avoid unnecessary exposure to interest rate risk. The adoption of this strategy results in the Council's net external borrowing being lower than the capital financing requirement. The projected external debt compared to the estimated capital financing requirement for the three-year period 2016-2017 through 2018-2019 is detailed at section 10.3.

5. Prudential framework for capital finance: prudential indicator for treasury management

5.1 The prudential indicator in respect of treasury management is that the Council has adopted the CIPFA *Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes* ("the Treasury Management

Code”). Indeed, the revised 2009 edition of the Treasury Management Code was adopted by the General Management and Finance Policy Board of 3 March 2010. This requires that the annual treasury management strategy statement is approved by Council, along with treasury limits for the three-year period 2016-2017 through 2018-2019.

5.2 In adopting the Treasury Management Code, the aim is to ensure that treasury management is led by a clear and integrated treasury management strategy, and a recognition of the pre-existing structure of the Council’s borrowing and investment portfolios. The prime policy objectives of the Council’s investment activities are the security and liquidity of funds, and the avoidance of exposure of public funds to unnecessary or unquantified risk. The Council should consider the return on its investments; however, this should not be at the expense of security and liquidity. It is therefore important that the Council adopts an appropriate approach to risk management with regard to their investment activities. Borrowing more than, or in advance of, the Council’s needs purely in order to profit from the investment of the extra sums borrowed should not be undertaken. In those circumstances where borrowing is taken in advance of need, the security of such funds must be ensured and consideration should be given as to whether value-for-money can be demonstrated. These principles should be borne in mind when investments are made, particularly for the medium to long term.

5.3 The Treasury Management Code requires, amongst other things, that the Council approves, annually in advance, a strategy for its treasury management activities. The treasury management strategy for 2016-2017 is set out at sections 8 to 12 of this report.

6. Prudential framework for capital finance: prudential indicators for prudence

6.1 It is possible that, while a council’s financial strategy may be affordable in the short term, it is imprudent and unsustainable because in the medium term it would, if pursued, be dependent on the use of borrowing to fund revenue expenditure. For this reason the Prudential Code makes it necessary, if a financial strategy is to be prudent, that it is one in which the medium-term net borrowing is only to be used for capital purposes.

6.2 In the Prudential Code, this requirement is to be demonstrated through a comparison of net borrowing with the capital financing requirement. Except in the short term, net external borrowing should not exceed the total capital financing requirement in the previous year, plus the estimates of any additional capital financing requirements for the current and next two financial years.

6.3 The projected capital financing requirement at 31 March 2019 is £388million (section 3.11). Net external borrowing should not exceed this level and, indeed, the projected operational boundary at 31 March 2019 is £388million (section 4.4). The Council had no difficulty in meeting this requirement at 31 March 2015 and no difficulties are anticipated in meeting this requirement in the future.

6.4 In addition, ensuring that treasury management is carried out in accordance with good professional practice is an essential feature of prudence. The treasury management indicators required by the CIPFA *Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes* ("the Treasury Management Code") are designed to help demonstrate prudence. The prudential indicator is that the Council has adopted CIPFA's Treasury Management Code. Indeed, the revised 2009 edition of the Treasury Management Code was adopted by the General Management and Finance Policy Board of 3 March 2010.

7. Prudential framework for capital finance: prudential indicators for affordability

7.1 A key measure of affordability is the incremental impact of investment decisions on council tax or housing rents. Estimates of the ratio of financing costs to net revenue stream provide an indication of how much of the Council's revenue is committed to the repayment of debt. The estimated ratios for the next three financial years are:

Ratio of financing costs to net revenue stream	2016-2017 estimate	† 2017-2018 estimate	† 2018-2019 estimate
Non-housing	7.78%	5.94%	6.46%
Housing	48.66%	49.58%	53.87%

† 2017-2019 estimates are currently based on the 2016-2017 settlement figures because the current settlement does not extend past 2016-2017.

7.2 The estimates of financing costs include current commitments and the proposals set out within the *Revenue Budget and Council Tax* report, including the impact of the ongoing debt smoothing exercise referred to in that report. The key objective of this strategy is to support a managed reduction in the Council's non-housing financing costs in recognition of the likely reduction, over the medium term, in the resources that will be available to the Council to deliver services. The reduction in this ratio for non-housing services over the period 2016-2017 through 2017-2018 reflects, and is consistent with, the anticipated outcome of implementation of the debt smoothing strategy. In relation to housing, the ratios detailed above are consistent with the updated *Housing Revenue Account Budget and Capital Investment Plan* presented to Council in February 2016.

7.3 Financing costs include the interest payable with respect to borrowing, interest payable on finance leases, interest and investment income, loans fund and finance lease principal repayments and gains/losses on the repurchase or early settlement of borrowing.

7.4 Revenue streams relate either to the amounts received in terms of government grant and local taxpayers ("non-housing") or to the amounts received from tenants in respect of housing rents ("housing").

7.5 The estimate of the incremental impact of the capital investment proposals outlined in this report for non-housing services, and as outlined in the *Housing Capital Investment Plan*, are:

Impact of capital investment decisions…	2016-2017 estimate	2017-2018 estimate	2018-2019 estimate
…on Band D council tax	£0	£0	£0
…on weekly housing rents	£1.24	£4.01	£6.22

7.6 The impact on Band D council tax is nil due to the fact that the financing costs resulting from any additional capital expenditure and related borrowing will be funded from government grant support and savings in other areas of expenditure.

8. Treasury management strategy statement: compliance with the Prudential Code

8.1 In order to comply with the treasury management requirements of the Prudential Code, local authorities are required to adopt the CIPFA *Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes* ("the Treasury Management Code").

8.2 The revised 2009 edition of the Treasury Management Code was adopted by the General Management and Finance Policy Board of 3 March 2010.

8.3 The Council's **treasury management strategy statement** for 2016-2017 is set out here at sections 8 through 12, and constitutes the Council's annual strategy and plan in relation to its treasury management activities as defined by the Treasury Management Code.

9. Treasury management strategy statement: objectives and responsibility for decision-making

9.1 The overall objectives of the Council's treasury management strategy are:

for **borrowings**:

- to minimise the revenue costs of borrowing,
- to manage the borrowing repayment profile,
- to assess interest rate movements and borrow accordingly,
- to monitor and review the level of variable rate loans held in order to take advantage of interest rate movements and
- to reschedule borrowing to improve the Council's repayment profile or to reduce the revenue costs of borrowing.

for **temporary investments**:

- to protect the capital security and liquidity of the invested funds and

- to obtain an acceptable market rate of return subject to protecting capital security and liquidity of invested funds.

These objectives are set within the context of the Council's over-arching objective in relation to treasury management activities: the effective management and control of risk.

9.2 The Council has a contract with Capita Asset Services ("Capita") for the provision of treasury management consultancy services. It is recognised that there is value in employing such external service providers in order to acquire access to specialist skills and resources, however the responsibility for treasury management decisions remains with Renfrewshire Council at all times and undue reliance is not placed upon our external service providers.

9.3 The suggested treasury management strategy for 2016-2017 is based upon the views on interest rates, supplemented with market forecasts provided by Capita, and covers the following aspects of the treasury management function:

- treasury limits in force which will limit the treasury risk and activities of the Council;
- prudential and treasury management indicators;
- the current treasury position;
- the identified borrowing requirement;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy;
- policy on use of external service providers.

10. Treasury management strategy statement: borrowing strategy

10.1 Current external borrowing position

The Council's external borrowing position as at 1January 2016 was as follows:

External borrowing position	borrowing position as at 31.03.2015		borrowing position as at 01.01.2016		change in the year
	£m	average interest rate	£m	average interest rate	£m
Long-term borrowings:					
PWLB: fixed rate	172.641	5.41%	165.932	5.24%	-6.709
PWLB: variable rate	0.000	0.00%	0.000	0.00%	0.000
Market loans	52.916	4.70%	52.916	4.70%	0.000
Total long-term borrowings	**225.557**	**5.25%**	**218.848**	**5.11%**	**-6.709**
Short-term borrowings:					
Temporary loans	0.000	0.00%	0.000	0.00%	0.000
Renfrewshire Leisure deposit	0.355	0.59%	0.964	0.61%	0.609
Total short-term borrowings	**0.355**	**0.59%**	**0.964**	**0.61%**	**0.609**
Total of all external borrowings	**225.912**	**5.24%**	**219.812**	**5.09%**	**-6.100**

10.2 The decrease in Public Works Loan Board (PWLB) borrowing represents the scheduled repayment of nine loans that matured during the period 1 April 2015 to 1 January 2016. These repayments were funded from investment balances. The Renfrewshire Leisure deposit represents funds which are invested temporarily in the Council's loans fund as part of Renfrewshire Leisure's short-term cash flow management arrangements. The increase is expected to be short term and is as a result of the decision taken to broaden the remit of Renfrewshire Leisure to include all cultural, sports facilities and services.

10.3 **Projected borrowing position**

The Council's anticipated borrowing position for the forthcoming financial year and the following two financial years is summarised in the following table. This shows the projected external debt compared to the estimated capital financing requirement (the underlying need to borrow for a capital purpose) at the end of each of the next three financial years.

Borrowing Position	31 March 2017 estimate £m	31 March 2018 estimate £m	31 March 2019 estimate £m
Borrowing	**240.618**	**258.118**	**258.724**
Other long-term liabilities	**79.883**	**77.178**	**74.274**
Total external debt	**320.501**	**335.296**	**332.998**
Capital financing requirement	**375.000**	**391.000**	**388.000**
Under/(over) borrowing	**54.499**	**55.704**	**55.002**

10.4 A number of the prudential indicators are designed to ensure that the Council carries out its treasury management activities within well-defined limits. One of these indicators is that gross external debt does not, except in the short term, exceed the total of the capital financing requirement in 2015-2016 plus the estimates of any additional capital financing requirement for 2016-2017 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not taken in order to fund revenue expenditure.

10.5 The Council has complied with this prudential indicator during 2015-2016 and it is envisaged this will remain the position moving forward over the forthcoming three-year period. As detailed in the table above, it is anticipated that the borrowing strategy will continue to progress on the basis of utilising internal borrowing over the medium term to mitigate both interest rate risk exposure for the Council, and also risks associated with maintaining adequate capacity with appropriate investment counterparties. The table above does not at this point include the impact of borrowing (both short and long term) required to fund City Deal projects as it is anticipated that spend in the years outlined will be fully funded by grant income; this assumption will be closely monitored as the wider programme develops and the regional cashflow position is clarified.

10.6 **Interest rate forecast**

As part of Capita's treasury management consultancy service to the Council, assistance is provided in preparing a forecast of short-term and longer-term fixed interest rates. Current interest rate forecasts for the official bank rate paid on commercial bank reserves (the "Bank Rate") and for PWLB borrowings are:

Interest rate forecast: Bank Rate	March 2016	June 2016	Sept 2016	Dec 2016	March 2017	March 2018	March 2019
Bank Rate	0.50%	0.50%	0.50%	0.50%	0.75%	1.25%	1.75%

Interest rate forecast: PWLB borrowings							
5-year loans	1.70%	1.90%	2.00%	2.10%	2.20%	2.70%	3.10%
10-year loans	2.30%	2.40%	2.50%	2.60%	2.70%	3.10%	3.60%
25-year loans	3.20%	3.20%	3.30%	3.30%	3.50%	3.70%	3.80%
50-year loans	3.00%	3.00%	3.10%	3.10%	3.30%	3.50%	3.70%

10.7 **Borrowing decisions**

The main borrowing decisions to be made for 2016-2017 are:

- when to borrow,
- for how long to borrow and
- whether to borrow externally or to use cash balances.

10.8 Based on the capital investment programme, it is anticipated that the Council will not require to borrow to fund new capital expenditure during 2016-2017, but will require to borrow £11.522 million of funds to replace loans due to mature that year. As mentioned at 10.5 above, the Council will also require to consider the borrowing implications from the City Deal projects both in the short term to address project cashflows and in the longer term.

10.9 The Council’s borrowing strategy will give consideration to new borrowing in the following order of priority:

(i) The cheapest borrowing will be internal borrowing through utilising cash balances and foregoing interest earned at historically low rates. However, in view of the overall forecast for long-term borrowing rates to slowly increase over the next few years, consideration will also be given to weighing the short-term advantage of internal borrowing against potential long-term costs if the opportunity is missed for taking loans at long-term rates which will be higher in future years.

(ii) PWLB borrowing for periods under 10 years where interest rates are expected to be significantly lower than interest rates for longer periods. This offers a range of options for new borrowing which will spread debt maturities away from a concentration at longer-dated time periods.

(iii) Short-dated borrowing from non-PWLB sources.

(iv) Long-term borrowing arranged in advance, in order to achieve certainty on future borrowing costs and reduce exposure to interest rate risk.

(v) Long-term fixed rate market loans at rates significantly below PWLB rates for the equivalent maturity period (where available), with due regard to maintaining an appropriate balance between PWLB and market debt in the debt portfolio.

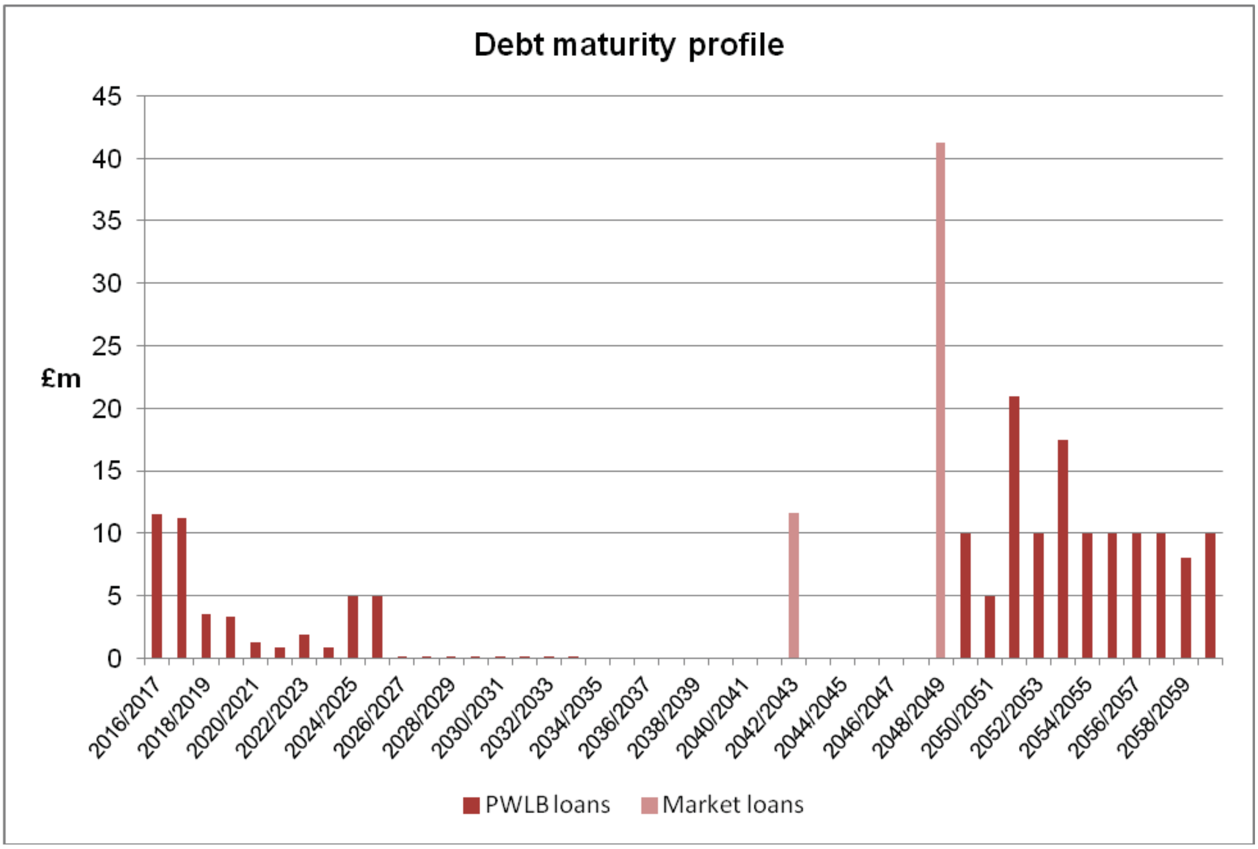
10.10 **Sensitivity of the interest rate forecast**

Council officers, in conjunction with the Council's treasury advisers, will continually monitor both the prevailing interest rates and the market forecasts, and will respond appropriately to material changes in interest rate forecasts, for example:

- If it were felt that there was a significant risk of a sharp <u>fall</u> in long- and short-term interest rates than that currently forecast, then long-term borrowings will be postponed, with focus shifting to consideration of short-term borrowing to meet the Council's borrowing need along with any opportunities for rescheduling.

- If it were felt that there was a significant risk of a much sharper <u>rise</u> in long- and short-term interest rates than that currently forecast, then the portfolio position will be reappraised with potentially a move to take on required borrowing whilst interest rates were still relatively cheap.

10.11 The forecast debt maturity profile at 31 March 2016 per the graph below highlights that the Council has less than 15% of its total borrowings redeeming in any one of the next 5 to 10 years. This is well within the Council's treasury indicators for debt maturity, and therefore provides the Council with the flexibility needed to structure new borrowing over this period in a manner that minimises debt interest costs.



10.12 Since the Council has a capital investment plan covering the period 2016-2017 and detailed investment/borrowing analyses, advantage can be taken of opportunities that may arise to achieve beneficial borrowing rates over the same period, minimising interest rate risk. The Council will not borrow more than, or earlier than, required with the primary intention to profit from the investment return of the extra sums borrowed. Pre-borrowing of this nature will only be taken for risk management reasons and subject to sound justification. The timing of any new borrowing of this nature will take into account the management of liquidity and counterparty risk, and also the projected movement in interest rates.

10.13 Caution will continue to be adopted and the Director of Finance and Resources will monitor the interest rate market. Should long-term rates start to rise or fall sharply, the debt portfolio position will be reappraised and appropriate action taken.

10.14 **Debt rescheduling opportunities**

The purpose of debt rescheduling is to reorganise existing borrowings in such a way as to amend the repayment profile of the borrowing portfolio, or to secure interest rate savings.

10.15 As short-term borrowing rates will be considerably cheaper than longer-term rates, there may be potential opportunities to generate savings by switching from long-term debt to short-term debt. However, such potential savings will be considered in the light of their short-term nature and risks associated with potential longer-term costs of refinancing those short-term loans, once they mature.

10.16 Consideration will also be given to the potential for making savings by running down investment balances to repay debt prematurely, as short-term rates on investments are likely to be lower than rates paid on current debt.

11. Treasury management strategy statement: investment strategy

11.1 **Investment policy**

In carrying out investment activities, the Council will have regard to The Local Government Investment (Scotland) Regulations 2010, the accompanying Scottish Government Finance Circular 5/2010 and the CIPFA *Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes* (“the Treasury Management Code”). The Council’s investment priorities are:

- the security of capital and
- the liquidity of its investments.

11.2 The Council will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite of the Council is low-to-medium, with absolute priority given to the security of its investments.

11.3 The borrowing of monies purely to invest or on-lend and make a return is unlawful and the Council will not engage in such activity.

11.4 Investment instruments identified for use in the financial year are listed in Annex A, and counterparty limits will be set as defined within the Council’s treasury management practices (TMPs) documentation.

11.5 **External investment position**

The Council’s external investment position as at 1January 2016 was as follows:

External investment position	investment position as at 31.03.2015		investment position as at 01.01.2016		change in the year
	£m	average interest rate	£m	average interest rate	£m
Temporary investments:	55.850	0.59%	106.748	0.59%	50.898

11.6 The increase in the Council’s short-term investments (“temporary deposits”) during the period reflects:

- the short-term cash flow position of the Council over the holiday period;
- the re-profiling of elements of the current capital programme;
- the re-phasing of general support grant income payments from the Scottish Government (that is, more income has been received earlier in the year);

- the current level of planned under-spend in general revenue expenditure and the in-year profile of capital expenditure

11.7 The average rate of interest received on the Council's temporary deposits has remained the same over the period (it continues to out-perform the Bank Rate). The Council has continued to lock into longer-term temporary deposit deals with counterparties of particularly high creditworthiness, thus securing a higher overall rate of return across the portfolio without compromising the security of investments.

11.8 **Creditworthiness policy**
In order to maintain an approved list of counterparties (institutions with which the Council will invest funds), the Council uses the creditworthiness methodology provided by Capita Asset Services ("Capita"). This methodology is based upon a modelling approach which uses, as its core element, credit ratings from the three major credit rating agencies: Fitch, Moody's and Standard & Poor's. The use of credit ratings is further enhanced by the use of specific overlays, encompassing:

- credit watch status and credit outlook from credit rating agencies;
- credit default swap (CDS) spreads, to give early warning of likely changes in credit ratings;
- sovereign ratings, to select counterparties from only the most creditworthy countries.

11.9 This process produces a series of colour code bands which indicate the relative creditworthiness of counterparties. These colour code bands are used by the Council to determine the duration for investments and are therefore referred to as "durational bands". The Director of Finance and Resources is satisfied that this service provides the Council with the facility to appropriately manage the risk relating to the security of the Council's investments.

11.10 The maximum deposit period for each of the durational bands is as follows:

Durational band colour	Capita's recommended maximum deposit duration	Renfrewshire Council maximum deposit duration
yellow	5 years	1 year
purple	2 years	1 year
blue †	1 year	1 year
orange	1 year	6 months
red	6 months	3 months
green	100 days	35 days
no colour	not to be used	not to be used

† The blue durational band applies only to nationalised or part-nationalised UK banks.

11.11 The approved list of counterparties also defines a maximum limit on the aggregate value of deposits placed with each counterparty. The purpose of this is to ensure that the Council does not deposit an excessive proportion of its funds with any single institution. Currently the counterparty limit for each bank has been set at 15% (with the exception of the nationalised/part-nationalised UK banks, for which the counterparty limit for each bank has been set at 30%), 10% for building societies and 5% for money market funds, of the total cash balances held by the Council at the time the investment is made, and taking into account the relevant investment period. These 15%, 30%, 10% and 5% limits are applied subject to a maximum total exposure of £15million, £30million, £10million and £5million respectively. This approach allows the Council to meet its cash flow management objectives whilst appropriately spreading investments over a range of counterparties.

11.12 All credit ratings are monitored daily. The Council is alerted to rating changes notified by all three rating agencies through its use of the Capita creditworthiness service. If a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.

11.13 Sole reliance is not placed on the use of this external service: in addition the Council will also use market data and market information, the quality financial press, information on government support for banks and the credit ratings of that government support.

11.14 **Investment decisions**

The Bank Rate has remained unchanged at 0.50% since March 2009. Current market forecasts indicate that the Bank Rate is expected to rise from quarter one of 2017, and then to rise gradually thereafter. Bank Rate forecasts are outlined at section 10.6 above.

11.15 The Council's investment strategy will therefore continue to include avoiding locking into longer-term deals whilst investment rates remain at historically low levels. However if attractive rates become available with counterparties of particularly high creditworthiness, thus making longer-term deals worthwhile and within the risk parameters set by the Council, then longer-term investments will be considered.

12. Treasury management strategy statement: treasury management indicators

12.1 The *Guidance Notes for Local Authorities* which accompany the CIPFA *Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes* ("the Treasury Management Code") specify four treasury management indicators covered by the Prudential Code: (i) acceptance of the Treasury Management Code, (ii) authorised limit, (iii) operational boundary and (iv) actual external debt. These indicators are dealt with in detail at sections 4 and 5 of this report.

12.2 The *Guidance Notes for Local Authorities* which accompany the Treasury Management Code specify a further two treasury management indicators which are covered by the Treasury Management Code itself: (i) interest rate exposures and (ii) maturity structure of borrowing.

12.3 Interest rate exposures

The Council is required to set for the forthcoming financial year, and the following two financial years, upper limits to its exposures to the effects of changes in interest rates. These indicators are required to relate both to fixed interest rates and to variable interest rates. The effect of setting these upper limits is to provide ranges within which the Council will manage its exposures to fixed and variable rates of interest. It is recommended that the Council approves the following as the indicator for interest rate exposures for each of the next three financial years:

Interest rate exposures	2016-17	2017-18	2018-19
Upper limit for fixed interest rate exposure	100%	100%	100%
Upper limit for variable rate exposure	25%	25%	25%

12.4 Maturity structure of borrowing

The Council is required to set for the forthcoming financial year both upper and lower limits with respect to the maturity structure of its borrowing. This is to ensure that the Council is not exposed to large concentrations of debt maturing in a single year and requiring to be replaced when interest rates are unfavourable. It is recommended that the Council approves the following as the indicator for the maturity structure of borrowing for the forthcoming financial year:

Maturity structure of borrowing	2016-17	
	lower limit	upper limit
under 12 months	0%	15%
12 months and within 24 months	0%	15%
24 months and within 5 years	0%	45%
5 years and within 10 years	0%	50%
10 years and above	0%	100%

Annex A: Permitted investments

The Council approves the forms of investment instrument for use as **permitted investments** as set out in tables 1, 2 and 3. Please also refer to section 11 in the body of Appendix 6.

A.1 Table 1 lists the permitted investments of a cash-type nature available for use by the Council's in-house treasury management team:

Permitted investments table 1: cash-type instruments arranged in-house	**minimum credit criteria**	**liquidity risk**	**market risk**	**maximum share of total invest-ments**	**maximum maturity period**
Debt Management Account Deposit Facility (DMADF)	not applicable	term	no	100%	2 years
Term deposits with local authorities	not applicable	term	no	75%	2 years
Call accounts and notice accounts with banks and building societies	per approved counter-party list	instant / notice period	no	100%	up to 100 days
Term deposits with banks and building societies	per approved counter-party list	term	no	100%	per approved counter-party list
Money market funds	long-term AAA vol-atility rating	instant	no†	75%	not applicable

† An objective of money market funds is to maintain the net asset value of unit shares in the fund, although such funds hold assets which can in fact vary in value. However, the credit rating agencies require the fluctuation in unit values held by investors to vary by almost zero.

A.2 Table 2 lists the permitted investments of a cash-type nature available for use by the investment managers of the Council's Insurance Fund:

Permitted investments table 2: cash-type instruments used by Insurance Fund investment managers	**minimum credit criteria**	**liquidity risk**	**market risk**	**maximum share of total invest-ments**	**maximum maturity period**
Equities	delegated to investment managers	term	yes‡	33% ±10%	not applicable
Fixed-interest securities	delegated to investment managers	term	yes‡	33% ±10%	not applicable
Other assets	delegated to investment managers	term	yes‡	33% ±10%	not applicable

‡ Market risk is mitigated since investment managers have been instructed to maintain low volatility by investing in a diversified portfolio which incorporates (i) a broad spread of equities, both directly and indirectly (through pooled funds), and (ii) a proportion of fixed-interest securities and cash.

A.3 **Treasury risks**

All the investment instruments listed in tables 1 and 2 above are subject to the following risks:

(i) *Credit and counterparty risk:* This is the risk of failure by a counterparty (bank or building society) to meet its contractual obligations to the organisation particularly as a result of the counterparty's diminished creditworthiness, and the resulting detrimental effect on the organisation's capital or current (revenue) resources. There are no counterparties where this risk is zero although AAA-rated organisations have a very high level of creditworthiness.

(ii) *Liquidity risk:* This is the risk that cash will not be available when it is needed. While it could be said that all counterparties are subject to at least a very small level of liquidity risk as credit risk can never be zero, in this document, liquidity risk has been treated as whether or not instant access to cash can be obtained from each form of investment instrument.

(iii) *Interest rate risk:* This is the risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately. The Council has set limits for its fixed and variable rate exposure in its treasury indicators as detailed in this report.

(iv) *Legal and regulatory risk:* This is the risk that the organisation itself, or an organisation with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the organisation suffers losses accordingly.

(v) *Market risk:* This is the risk that, through adverse market fluctuations, the value of investments may decline over a given time period simply because of economic changes or other events that impact large portions of the market.

A.4 **Controls on treasury risks**

(i) *Credit and counterparty risk:* The Council has set minimum credit criteria to determine which counterparties and countries are of sufficiently high creditworthiness to enable investments to be made safely.

(ii) *Liquidity risk:* The Council has a cash flow forecasting model to enable it to determine the duration for which individual investments can be made, and how much can be invested.

(iii) *Interest rate risk:* The Council manages this risk by having a view of the future course of interest rates and formulating a treasury management strategy accordingly. The strategy aims to maximise investment earnings consistent with control of risk and minimise expenditure on interest costs on borrowing.

(iv) *Legal and regulatory risk:* The Council will not undertake any form of investing until it has ensured that it has all necessary powers to do so. The Council will ensure that it complies with all applicable regulations in the carrying out of its treasury management operations.

(v) *Market risk:* Asset allocation and diversification can protect against market risk because different portions of the market tend to under-perform at different time times. The Director of Finance and Resources has the authority to invest the funds of the Insurance Fund in such investments, securities or property as deemed fit. The Director and officers rely on professional investment managers (currently Standard Life Wealth) for the day-to-day management of the assets of the Council's Insurance Fund. The investment managers are responsible for the allocation of assets between types of investments and for the selection of individual stocks within each type of investment. The investment fund is focused on the objective of achieving moderate capital growth in combination with low volatility to mitigate the impact of market risk. In order to achieve these objectives the investment manager operates within predefined asset allocation limits as outlined in table 2 above.

A.5 **Objectives of each type of investment instrument**

The objectives of the investment instruments listed in table 1 above are outlined below.

(i) *Debt Management Account Deposit Facility (DMADF):* This offers the lowest risk form of investment available to local authorities as it is effectively an investment placed with central government. It is also easy to use as it is a deposit account and avoids the complications of buying and holding UK government-issued treasury bills or gilts. As it is low risk it also earns low rates of interest, however it is useful where there may be a short-term priority to avoid credit risk. The longest term deposit that can be made with the DMADF is six months.

(ii) *Term deposits with high credit worthiness banks and building societies:* This is the most widely used form of investment used by local authorities. It offers a much higher rate of return than the DMADF (dependent on the deposit term) and, now that measures have been put in place to avoid any over reliance on credit ratings, there is greater confidence that the residual risks around using such banks and building societies are at a low, reasonable and acceptable level.

The Council will ensure diversification of its portfolio of deposits ensuring that no more than 15%† (30% for nationalised/part-nationalised UK banks) of the total portfolio can be placed with any one institution or group. In addition, longer-term deposits offer an opportunity to increase investment returns by locking into relatively high interest rates ahead of an expected fall in interest rates. At other times, longer-term rates can offer good value when the markets incorrectly assess the speed and timing of interest rate increases.

This form of investing, therefore, offers flexibility and a higher level of earnings than the DMADF. Where it is restricted is that once a longer-term investment is made, that cash is 'locked in' and cannot be accessed until the maturity date. This type of deposit includes callable deposits, whereby the principal deposited is protected and earns a fixed rate of interest but can be terminated early at the bank's discretion.

† In recognition of the restricted number of approved counterparties that now meet our more stringent lending criteria, there is an added degree of flexibility introduced to the maximum deposit level. The deposit level with any one institution can now extend to a maximum of £15million, where the element which exceeds the 15% threshold is deposited on the basis of a call account deposit with the institution.

(iii) *Call accounts and notice accounts with high credit worthiness banks and building societies:* The objectives are as for (ii) above, but there is access to recalling cash deposited over short call periods (call account periods vary from short-term such as 7 days, but can extend to 35- and 95-day notice periods). This generally means accepting a lower rate of interest than that which could be earned from the same institution by making a term deposit. However, call accounts can offer interest rates two to three times more than term deposits in the DMADF. A certain level of call account use is highly desirable to ensure that the Council has ready access to cash when required.

(iv) *Money market funds:* By definition, money market funds (MMFs) are AAA-rated (the highest security rating available) and are widely diversified, using many forms of money market securities including types which this Council does not currently have the expertise or risk appetite to hold directly. However, due to the high level of expertise of the fund managers and the significant amounts of funds invested in MMFs, and the fact that the weighted average maturity (WAM) cannot exceed 60 days, MMFs offer a combination of high security, instant access to funds, high diversification and good rates of return compared to equivalent instant access facilities.

They are particularly advantageous in a falling interest rate environment as their 60-day WAM means they have locked-in investments earning higher rates of interest than are currently available in the market. MMFs also help an organisation to diversify its own portfolio, for example a £2million investment placed directly with a specific bank is a 100% risk exposure to that specific bank, whereas £2million invested in an MMF may result in only 1% being invested with that specific bank through the MMF. MMFs offer an effective way of minimising risk exposure while still getting better rates of return than available through the DMADF.

The Council will only invest in MMFs where the principal sum invested has the highest security, that is, funds which offer a constant net asset value (CNAV). The Council, along with its treasury advisers, will regularly monitor all the MMFs it invests in. The Council will:

- carry out periodic monitoring of fund portfolios, examine credit quality and review the market value of the portfolio holdings and the capabilities and resources of the fund managers;
- review, weekly, information on the credit quality and diversification of the portfolio holdings, redemption/subscription activity and the key performance indicators of the fund (net asset values, weighted average maturity and weighted average final maturity indicators);
- in periods of market stress, monitor the daily position of all funds.

A.6 Table 3 lists the permitted investments of a non-cash nature available for use by the Council:

Permitted investments table 3: instruments of a non-cash nature	**treasury risks**	**mitigating controls**	**maximum share of total investments**
Share holdings, unit holdings and bond holdings, including those in a local authority-owned company	Service investments which may exhibit market risk; likely to be highly illiquid	Each equity investment requires Member approval and each application will be supported by the service rationale behind the investment and the likelihood of loss	Policy driven, managing all associated risks; authorised limit and operational boundary apply
Loans to a local authority-owned company or other entity formed by a local authority to deliver services	Service investments either at market rates of interest or below (soft loans); may exhibit credit risk; likely to be highly illiquid	Each loan to a local authority company requires Member approval and each application will be supported by the service rationale behind the loan and the likelihood of full or partial default	Policy driven, managing all associated risks; authorised limit and operational boundary apply

Loans made to third parties, including soft loans (for example, employee loans)	Service investments either at market rates of interest or below (soft loans); may exhibit credit risk; likely to be highly illiquid	Each third party loan (or tranche of loans) requires Member approval and each application will be supported by the service rationale behind the loan and the likelihood of full or partial default	Policy driven, managing all associated risks; authorised limit and operational boundary apply
Investment property	Non-service properties which are being held pending disposal or for a longer-term rental income stream; these are highly illiquid assets with high risk to value	Property holding will be revalued regularly and reported at appropriate periodic intervals for a property investment portfolio in respect of rental levels; in terms of surplus assets held for disposal, the Council has an active surplus property disposal strategy which ensures a coordinated and managed approach is adopted to the disposal of such sites in a way which is reflective of current and future anticipated market conditions, seeks to maximise market interest in site disposals and secures best value for the Council	Policy driven, managing all associated risks; authorised limit and operational boundary apply

Implications of the Report

Financial – the report proposes a £201.525 million investment programme over the period 2016/17 to 2018/19.

HR & Organisational Development - The Capital Investment Plan contains a range of proposals which will continue to drive forward the modernisation and development of the organisation through delivering joined up services, improved customer responsiveness, providing one stop access and delivering higher quality and more efficient services.

Community Planning

Children and Young People – The Capital Investment Programme contains a range of proposals that will support the development of education throughout Renfrewshire.

Community Care, Health & Well-being - The Capital Investment Plan contains a range of proposals that will support the Council in taking forward its key objective of improving the health of the people of Renfrewshire.

Empowering our Communities - None

Greener - The Capital Investment Plan contains a range of proposals that support the Council in advancing environmentally sustainable improvements.

Jobs and the Economy - the capital investment programme represents a significant level of construction and investment activity within the Renfrewshire area which will support ongoing economic activity.

Safer and Stronger - The Capital Investment Plan contains a range of proposals that directly contribute to the objective of making Renfrewshire a safer place to live, work and visit.

Legal - *none*

Property/Assets – the investment projects outlined in the report will improve the Council's property and wider asset portfolio.

Information Technology - the investment projects outlined will improve the Council's ICT infrastructure and systems to support the better delivery of services to our customers.

Equality & Human Rights - The Recommendations contained within this report have been assessed in relation to their impact on equalities and human rights. No negative impacts on equality groups or potential for infringement of individuals' human rights have been identified arising from the recommendations contained in the report. If required following implementation, the actual impact of the recommendations and the mitigating actions will be reviewed and monitored, and the results of the assessment will be published on the Council's website.

Health & Safety – the property lifecycle maintenance programme will improve health and safety standards across public buildings.

Procurement - none

Risk – the proposals outlined in the report assist in managing key financial risks for the Council including ensuring future investment and borrowing levels are financially sustainable over the long term.

Privacy Impact - none

List of Background Papers

None

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