To: Council

On: 9 March 2020

Report by: Director of Finance & Resources

Heading: Non Housing Capital Investment Programme, Prudential Framework and Treasury Management Strategy, and Capital Strategy 2020/21 – 2024/25

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1. **Summary**

1.1 This report details the planned capital investment for non housing services, which as well as covering a range of Corporate projects includes projects across all service areas within the Council with the exception of Council Housing. The resources available to support investment include prudential borrowing and capital grant as well as contributions from revenue, partners and external funding bodies.

1.2 On 6 February 2020 the Scottish Government published the draft Scottish Government budget for 2020/21, with the provisional local government finance settlement as outlined in Finance Circular 1/2020 also being published on 6 February 2020. The proposed capital grant for Renfrewshire Council in 2020/21 outlined in the Circular is £12.337 million, of which £0.292 million is specific grant relating to cycling and walking safer streets (CWSS). Further to the £12.045 million of general capital grant above, £3.600 million of specific capital grant has also been allocated to support the expansion of Early Years Education and Childcare provision. Associated early years investment proposals will continue to be subject to appropriate reporting through the Education and Children's Services Policy Board as the expansion planning and funding distribution for Early Years progresses.

1.3 The Scottish Government subsequently announced on 27 February 2020 an additional £15m of specific capital funding in relation to Cycling, Walking and Safer Streets, of which the Renfrewshire allocation is £0.491 million. This additional allocation brings the total CWSS specific capital grant in 2020/21 to £0.783 million. The Scottish Government have also announced a further £25 million capital funding to support investment in energy efficiency measures. The allocation of this funding has to be agreed with COSLA so at this point there is no indication of what the allocation to Renfrewshire may be or on what basis an allocation may be made. As this position becomes clear an update will be provided to the relevant Policy Board.

1.4 The level of general capital grant allocated to local government in the draft Budget for 2020/21 (£468 million) is substantially reduced from that received in 2019/20 (£712 million). The general grant allocation for Renfrewshire outlined above is 20% lower than the general capital grant received in 2019/20. Should the general capital grant continue at the level received in 2020/21 over the coming years, the Council will require to fundamentally reappraise its capital planning approach. At this level of grant there would be a requirement to reduce the level of rolling maintenance programmes that have been supportable in previous years. There would also be no scope for any investment in assets other than rolling lifecycle maintenance unless other sources of funding were secured, including for example realised capital receipts, sustainable prudential borrowing funded by recurring revenue savings and external grant funding. As outlined later in the report, £2 million of realised capital receipts are supporting the 2020/21 proposed programme, offsetting to a degree the significant drop in general capital grant.

1.5 Within the draft Budget and local government capital settlement, the Scottish government has also announced a £50 million Heat Networks Early Adopters Challenge Fund to support local authorities who are ready to bring forward investment-ready heat network projects. This will be a competitive fund to provide enabling and financial support to assist the build and installation of exemplar local authority-led heat network projects. It is anticipated the Fund will be launched early in 2020/21 following consultation with COSLA with regards detailed terms and conditions.

1.6 The Scottish Government has previously proposed an intention for there to be multi-year funding settlements for local government from 2020/21 which would assist future capital investment planning. The delay with the announcement of the UK budget to 11 March 2020 has however limited the ability of the Scottish Government to develop a multi-year settlement therefore the 2020/21 settlement is again for one year only. However the Scottish Government has reconfirmed its commitment to providing multi-year settlements when possible. It should be noted that the capital plan outlined in this report extends beyond 2020/21, reflecting approved programmes already in place which are funded by other arrangements eg 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 arrangements are established.

1.7 The Prudential Code & Treasury Management Code play a key role in capital finance in local authorities, and they 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. The Treasury Management Code further requires the Council to approve, annually in advance, a strategy for its treasury management activities; while the Prudential Code also requires full Council approval of the Capital Strategy which sets out the long term context within which capital investment decisions are made to improve capital, revenue and balance sheet planning. Details of the proposed prudential indicators and treasury management strategy are attached at Appendix 6; and the proposed capital strategy is attached at Appendix 7.

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2. Recommendations

It is recommended that Council:

2.1 Approves the investment programme covering the period up to 2024/25 as summarised in Table 2 of the report and detailed in Appendices 1-5 attached.

2.2 Notes that, subject to the approval of the proposed investment programme, there are uncommitted resources of £0.645 million held in the Strategic Asset Management Fund available for allocation to new investment priorities for the Council.

2.3 Notes that visibility of the Council's capital grant funding position beyond 2020/21 may be improved from 2021/22 assuming a three year settlement is available, however no assumptions are included within the planned programme beyond this financial year in respect to future grant levels with the exception of the commitments agreed by Council in setting the 2019/20 capital plan in relation to roads and infrastructure investment over the medium term.

2.4 Delegates to the Head of Property Services, Head of Operations and Infrastructure, and Head of Schools in consultation with the Director of Finance and Resources, authority to adjust where appropriate resources across individual components of the lifecycle maintenance, roads and structures and schools investment programmes respectively.

2.5 Approves 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 budget reports being presented to this Council meeting.

2.6 Approves the treasury management strategy for 2020/21, including the treasury management indicators, set out in Appendix 6 to this report.

2.7 Approves the Capital Strategy set out in Appendix 7 to this report.

2.8 Considers the equality impact of any decisions being taken by members relating to the recommendations outlined in 2.1 to 2.7 above.

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3. Overview of Capital Resources and Current Programme

3.1 The updating of the capital programme outlined in this report focuses on the 2020/21 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 and as reconfirmed at the September 2019 Council meeting, general capital grant for 2020/21 be 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 (£4.0 million);

    - maintaining an annual replacement programme for the Council's vehicle fleet (£1.8 million, of which £0.3m is committed to support the delivery of 2 refuse collection vehicles in 2019/20 as agreed by the Finance & Resources Policy Board in November 2019);

    - maintenance programmes for the Council's transport infrastructure covering roads & footpaths (£5.6 million), bridges (£0.3 million) and streetlighting/traffic lights (£0.5 million).

    - Maintenance and refresh of the Council's ICT estate (£0.7 million)

- maintaining delivery of the private sector housing programme (£0.5 million).

- 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 provide 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 2020/21 - 2024/25

Project Title	Programme 2020/21 £000s	Programme 2021/22 £000s	Programme 2022/23 £000s	Programme 2023/24 £000s	Programme 2024/25 £000s
Prudential Borrowing	22,250	58,784	18,550	12,808	2,200
TOTAL BORROWING	**22,250**	**58,784**	**18,550**	**12,808**	**2,200**
Specific Grant	10,714	3,413	250	250	0
General Capital Grant	12,045	5,600	5,600	2,600	0
City Deal Grant	4,301	4,541	9,769	38,545	51,540
City Deal borrowing	28,637	34,498	14,199	0	360
Usable Capital Receipts	13,267	17,123	0	0	0
C.F.C.R.	6,021	6,824	0	0	0
Total Resource Availability	**97,236**	**130,783**	**48,368**	**54,203**	**54,100**

Table 2: Programme 2020/21 - 2024/25

Project Title	Programme 2020/21 £000s	Programme 2021/22 £000s	Programme 2022/23 £000s	Programme 2023/24 £000s	Programme 2024/25 £000s
Major Programmes					
Schools Estate Programme	13,727	8,563	10,400	11,008	400
Grass Pitches & Changing Facilities	637	0	0	0	0
Transformation & ICT	1,231	400	400	400	400
Private Sector Housing Programme	2,050	0	0	0	0
City Deal Projects	34,462	39,038	23,968	38,545	51,900
Regeneration	4,277	2,000	1,500	0	0
Paisley Learning & Cultural Hub	2,802	2,703	0	0	0
Paisley Museum	5,616	31,202	0	0	0
Investment in Heritage Venues & Town Centre Infrastructure	7,690	31,490	650	0	0
Town Centre Capital Fund	1,333	0	0	0	0
Townscape Heritage 2	2,285	855	0	0	0
Local Green Area Networks Projects	65	70	0	0	0
Digital Infrastructure Provision	1,200	300	0	0	0
Commnunity Empowerment Fund	351	450	0	0	0
Greenspaces and Parks	396	300	0	0	0
Asset Lifecycle Maintenance Programmes					
Vehicle Replacement	1,800	0	0	0	0
Roads & Footpaths	8,583	10,050	10,450	3,250	400
Bridges	300	0	0	0	0
Underwood Depot - Workshop Improvements	209	0	0	0	0
Lighting Columns and traffic signals	1,500	0	0	0	0
Parks Improvement Programme	60	0	0	0	0
Buildings Capital Lifecycle	5,157	1,000	1,000	1,000	1,000
Energy Efficiency Programme	402	0	0	0	0
Community Halls & Facilities Programme	124	2,362	0	0	0
Leisure Investment Programme	334	0	0	0	0
Strategic Asset Management Fund - unallocated	645	0	0	0	0
Total Planned Spend	**97,236**	**130,783**	**48,368**	**54,203**	**54,100**

3.3 Strategic Asset Management Fund and Regeneration Resources.

As detailed in table 2 above, there is £0.645 million of unallocated resources currently held in the Strategic Asset Management Fund (SAMF). These available resources are linked to the release of £2.0 million of unallocated capital receipts income.

4. Lifecycle Maintenance of Existing Assets

4.1 As outlined above, 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 2020/21 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 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. This flexibility has been utilised in 2019/20 to re-phase £0.2m of resource to 2020/21 in order to accommodate planned works schedules and ensure effective procurement.

Roads & Footpaths

4.4 The investment level detailed in this report for 2020/21 was agreed by Council on 28 February 2019 as part of a sustained investment programme in the roads, cycling and pathway network over the medium term. The investment programme will deliver a stepped change in the condition of key routes and transport infrastructure. Members should note that the investment agreed commits a significant portion of capital grant over the next financial years, in addition to prudential borrowing. Appendix 5 provides a breakdown of the proposed use of the resources across key programmes for 2020/21. Similar to property lifecycle maintenance, it is proposed that the Head of Operations and Infrastructure, in consultation with the Director of Finance & Resources, is delegated authority to adjust the allocation of resources within this programme.

Streetlighting, Bridges and Other Road Structures

4.5 The significant street light replacement programme agreed by Council in 2015 to replace largely sodium-vapour lights with more energy efficient LED lighting is now complete. However, it is proposed that in order to maintain the overall condition of street lighting columns, that a lighting column rolling replacement programme is continued.

4.6 Similar to the Council's property portfolio, a maintenance backlog has historically existed across the bridges and structures portfolio. Progress has been made over recent years with a range of significant bridge improvement projects, however it is recommended that a rolling maintenance programme of £0.3 million is maintained.

4.7 The Council is also required to address the implications of traffic signals converting in the coming years to utilise digital signals as opposed to the current analogue system. The £1 million agreed by Council for this purpose in 2019/20 continues to be utilised and further review of the traffic signal infrastructure and potential development is ongoing. It is recognised that there remains a risk that the existing level of resources may need to be reassessed as the full future requirements are fully developed.

Vehicle & Plant Replacement Strategy

4.8 The Council has invested significantly from capital resources over recent years to support a vehicle replacement strategy. Continued investment of £1.8 million 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. This funding will also support the match funding of grant received in relation to the purchase of 2 electric minibuses, supporting the council's efforts to tackle climate change and further expand the scale of the electric fleet in the Council beyond small vehicles.

Private Sector Housing Grant (PSHG)

4.9 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. This is a key enabler with regards the implementation of the housing investment programme.

5. Prudential Framework for Capital Finance and Treasury Management Strategy 2020/21

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 2020/21 and treasury management strategy for 2020/21 based upon the details outlined in this report.

6. Capital Strategy

6.1 The Capital Strategy provides an overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of public services in local government along with an overview of how associated risk is managed and the implications for future financial sustainability.

6.2 Development and full Council approval of the Capital Strategy is a requirement of the Prudential Code, with the intention that the strategy sets out the long term context within which capital investment decisions are made, and to improve capital, revenue and balance sheet planning.

6.3 The Capital Strategy is attached at Appendix 7 to this report.

7. Equalities

7.1 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.

7.2 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.

Implications of the Report

1. **Financial** – The Capital Plan outlines the planned investments in council assets over a three year period; along with the associated funding sources. The Capital Plan; Prudential Framework and Treasury Management Strategy; and Capital Strategy ensures that investment in council assets is undertaken in a prudent and financially sustainable fashion, is consistent with the council's priorities and agreed financial planning principles and is affordable for the Council now and in future years.

2. **HR & Organisational Development** - none

3. **Community/Council Planning –**

- **Reshaping our place, our economy and our future** – the Capital Plan outlines investment in facilities and infrastructure which will support the regeneration of the local economy.
- **Creating a sustainable Renfrewshire for all to enjoy** – the Capital Plan outlines investment in council and community facilities which will ensure these remain available for community use well into the future.

4. **Legal** - none

5. **Property/Assets** – the Capital Plan outlines significant investment in council assets and infrastructure over the medium term in order to ensure they remain fit for purpose and support efficient service delivery.

6. **Information Technology** – the Capital Plan outlines investment in ICT assets which will ensure the council continues to have access to secure, efficient ICT services.

7. **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.

8. **Health & Safety** – the Capital Plan outlines investment in council assets and facitlities to ensure they remain safe and accessible in line with statutory obligations.

9. **Procurement** – the Capital Plan outlines significant investment in council assets which will be procured in conformance with all relevant contract standing orders and procurement legislation.

10. **Risk** – investment in council assets ensures they remain fit for purpose and meet all statutory requirements in terms of accessibility, sustainability and safety.

11. **Privacy Impact** - none

12. **Cosla Policy Position** – none

13. **Climate Risk** – investment in council assets improves energy efficiency and helps to reduce the council carbon footprint.

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Appendix 1

2020/21 – 2024/25 Capital Investment Programme Resources

Department	Revised Programme 2020/21	Revised Programme 2021/22	Revised Programme 2022/23	Revised Programme 2023/24	Revised Programme 2024/25
Schools and Early Years Investment	13,727	8,563	10,400	11,008	400
Leisure Estate	1,095	2,362	0	0	0
Environment & Infrastructure	12,452	10,050	10,450	3,250	400
Economic Development	58,530	107,359	26,118	38,545	51,900
Corporate Projects	9,381	2,450	1,400	1,400	1,400
Private Sector Housing Grant	2,050	0	0	0	0
TOTAL GENERAL SERVICES PROGRAMME	**97,235**	**130,784**	**48,368**	**54,203**	**54,100**

Appendix 2

2020/21 – 2024/25 Capital Investment Programme Summary

Project Title	Revised Programme 2020/21	Revised Programme 2021/22	Revised Programme 2022/23	Revised Programme 2023/24	Revised Programme 2024/25
Prudential Borrowing	22,250	58,784	18,550	12,808	2,200
Specific Grant	10,714	3,413	250	250	0
General Capital Grant	12,045	5,600	5,600	2,600	0
City Deal Interim borrowing	28,637	34,498	14,199	0	360
Useable Capital Receipts	17,568	21,664	9,769	38,545	51,540
CFCR	6,021	6,824	0	0	0
TOTAL	**97,235**	**130,784**	**48,368**	**54,203**	**54,100**

Appendix 3

2020/21 – 2024/25 Capital Programme

Project Title	Revised Programme 2020/21	Revised Programme 2021/22	Revised Programme 2022/23	Revised Programme 2023/24	Revised Programme 2024/25
SCHOOLS INVESTMENT PROGRAMME					
Early Years 1140 hours Expansion	9,175	3,163	0	0	0
Primary Schools Estate Programme(SEMP 2014)	495	0	0	0	0
Primary Schools Estate Programme(SEMP 2020)	1,317	5,000	10,000	10,608	0
OTHER PROGRAMMES					
Technology Replacement Strategy ICT	400	400	400	400	400
TOTAL CHILDRENS SERVICES PROGRAMME	**13,727**	**8,563**	**10,400**	**11,008**	**400**

Project Title	Revised Programme 2020/21	Revised Programme 2021/22	Revised Programme 2022/23	Revised Programme 2023/24	Revised Programme 2024/25
EARLY YEARS 1140 HOURS EXPANSION					
General Early Years Expansion Programme	**0**	**789**	**0**	**0**	**0**
New Build					
Dargavel (Bishopton) - New Build	1,226	307	0	0	0
Hawkhead (Todholm) New Build	1,274	318	0	0	0
Houston - New Build	1,385	346	0	0	0
Kirklandneuk - New Build	1,204	301	0	0	0
Total New Build	**5,089**	**1,272**	**0**	**0**	**0**
Extension					
St Catherine's PS - Extension	434	111	0	0	0
Glendee Pre Five Centre - Extension	77	19	0	0	0
Inchinnan - Extension	922	246	0	0	0
Kilbarchan - Extension	662	185	0	0	0
St Margaret's - Extension	826	227	0	0	0
Williamsburgh Nursery - Extension	310	97	0	0	0
Total Extension	**3,230**	**885**	**0**	**0**	**0**
Refurbishment					
Ralston Nursery Class - Refurbishment	120	30	0	0	0
Glenburn Pre Five Centre - Refurbishment	89	22	0	0	0
Hollybush - Refurbishment	142	35	0	0	0
Ferguslie Pre Five Centre - Refurbishment	23	6	0	0	0
Mossvale Nursery Class - Refurbishment	5	1	0	0	0
Gallowhill Nursery - Refurbishment	61	15	0	0	0
Moorpark Pre Five Centre - Refurbishment	2	0	0	0	0
Auchenlodment Nursery - Refurbishment	4	1	0	0	0
St Anne's Nursery - Refurbishment	93	23	0	0	0
Lochwinnoch - Refurbishment	317	79	0	0	0
Total Refurbishment	**855**	**217**	**0**	**0**	**0**
EARLY YEARS 1140 HOURS EXPANSION	**9,175**	**3,163**	**0**	**0**	**0**

Appendix 3

2020/21 – 2024/25 Capital Programme

Project Title	Revised Programme 2020/21	Revised Programme 2021/22	Revised Programme 2022/23	Revised Programme 2023/24	Revised Programme 2024/25
LEISURE INVESTMENT PROGRAMME					
Community Sports Hubs	334	0	0	0	0
TOTAL LEISURE INVESTMENT PROGRAMME	**334**	**0**	**0**	**0**	**0**
OTHER PROGRAMMES					
Grass Pitches & Changing Facilities	637	0	0	0	0
Community Halls Refurbishment	124	2,362	0	0	0
TOTAL LEISURE SERVICES PROGRAMME	**1,095**	**2,362**	**0**	**0**	**0**

Project Title	Revised Programme 2020/21	Revised Programme 2021/22	Revised Programme 2022/23	Revised Programme 2023/24	Revised Programme 2024/25
PROGRAMME FUNDED BY SPECIFIC GRANT					
Cycling, Walking & Safer Streets - Outwith Travel Plans	783	250	250	250	0
Total Programme Funded By Specific Consent	**783**	**250**	**250**	**250**	**0**
ASSET LIFECYCLE MAINTENANCE PROGRAMMES					
Vehicle Replacement Programme	1,800	0	0	0	0
Bridge Assessment/Strengthening	300	0	0	0	0
Roads/Footways Upgrade Programme	7,800	9,800	10,200	3,000	400
Lighting Columns Replacement	500	0	0	0	0
Traffic Management	1,000	0	0	0	0
OTHER MAJOR PROGRAMMES					
Parks Improvement Programme	60	0	0	0	0
Underwood Depot - Workshop Improvements	209	0	0	0	0
TOTAL ENVIRONMENT & INFRASTRUCTURE	**12,452**	**10,050**	**10,450**	**3,250**	**400**

Appendix 3

2020/21 – 2024/25 Capital Programme

Project Title	Revised Programme 2020/21	Revised Programme 2021/22	Revised Programme 2022/23	Revised Programme 2023/24	Revised Programme 2024/25
CITY DEAL					
Glasgow Airport Investment Area	15,340	970	267	217	219
Clyde Waterfront & Renfrew Riverside	17,921	35,564	19,708	562	527
Airport Access	1,202	2,504	3,993	37,766	51,154
Total CITY DEAL	**34,463**	**39,038**	**23,968**	**38,545**	**51,900**
CITY DEAL RELATED PROGRAMMES					
GAIA Regeneration	2,000	2,000	1,500	0	0
AMIDS: Public Realm Phase	2,277	0	0	0	0
PAISLEY VENUE & TOWN CENTRE INFRASTRUCTURE					
Paisley Art Centre Redevelopment	400	2,144	0	0	0
Paisley Town Hall Redevelopment	3,366	16,705	650	0	0
Flexible Outdoor Facility/Travel & Accessibility Infrastructure	2,519	6,917	0	0	0
Sport and Leisure Infrastruture	1,404	5,724	0	0	0
Paisley Museum	5,616	31,202	0	0	0
Paisley Learning & Cultural Hub	2,802	2,703	0	0	0
Town Centre Capital Fund	1,333	0	0	0	0
Development & Housing Projects					
Townscape Heritage CARS 2	2,285	855	0	0	0
Local Green Area Networks Projects	65	70	0	0	0
TOTAL CHIEF EXECUTIVES PROGRAMME	**58,530**	**107,359**	**26,118**	**38,545**	**51,900**

Project Title	Revised Programme 2020/21	Revised Programme 2021/22	Revised Programme 2022/23	Revised Programme 2023/24	Revised Programme 2024/25
ICT PROGRAMME					
ICT Infrastructure Maintenance & Renewal Programme	1,231	400	400	400	400
Total ICT Programme	**1,231**	**400**	**400**	**400**	**400**
OTHER CORPORATE PROGRAMMES					
Strategic Asset Management Fund	645	0	0	0	0
Energy Efficiency Programme	402	0	0	0	0
Lifecycle Capital Maintenance (LCM) Fund	5,157	1,000	1,000	1,000	1,000
Digital Infrastructure Provision	1,200	300	0	0	0
Commnunity Empowerment Fund	351	450	0	0	0
Greenspaces and Parks	396	300	0	0	0
TOTAL CORPORATE PROJECTS PROGRAMME	**9,381**	**2,450**	**1,400**	**1,400**	**1,400**

Appendix 4

Property Lifecycle Maintenance Programme 2020 – 21*

	2020/21
	£m
Minor Works & Roofing Programme	2.500
Energy Programme	0.200
Asbestos Works – compliance with Asbestos legislation following inspections	0.100
Electrical Installations Works – compliance with Electrical testing inspections	1.700
Gas Installations Works – compliance with Gas testing inspections	0.300
Office Accommodation	0.100
Design and Pre Contract Works Allocation	0.100
TOTAL	**5.000**

* Note – the programme above reflects the additional £4m allocated from grant funding and £1m from borrowing

Appendix 5

Roads & Footpaths Lifecycle Maintenance Programme 2020 - 21

	2020/21 £m
Patching programme in advance of surface dressing	0.400
Footway Resurfacing	0.300
Carriageway Resurfacing	4.700
Surface treatment	0.600
Drainage Improvements	0.400
Defect/area based Patching	0.700
Staff Costs	0.700
Walking, Cycling and Safer Streets*	0.783
Total	**8.583**

* based on level of CWSS specific grant per the draft Scottish Budget

APPENDIX 6

Prudential Framework for Capital Finance 2020-2023 (estimates) and Treasury Management Strategy Statement 2020-2023

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 Revised editions of the Treasury Management Code and the Prudential Code were published in December 2017 and adopted by Council on the 28th February 2019.

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 in full understanding of the risks involved;
- capital investment plans are being made in light of the overall organisational strategy and resources, ensuring that decisions are being made with sufficient regard to the long run financial implications and potential risks to the authority.

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 Director of Finance & Resources is responsible for ensuring that all matters required to be taken into account are reported to Council 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 Statement of 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 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' and subsequent level of 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 <u>capital expenditure</u>

3.1 **Capital expenditure**

Capital expenditure is defined in the CIPFA *Code of Practice on Local Authority Accounting in the United Kingdom 2019/20* 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 and housing services are presented to this Council meeting in the main body of this report and in a separate report on this agenda respectively; and take account of the capital resources that will be made available to the Council from the Scottish Government in 2020/21 and the updated housing investment programme.

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. It is recommended that the Council approves the following as the indicator for capital expenditure for the next three financial years:

Capital expenditure	2020-21 estimate £m	2021-22 estimate £m	2022-23 estimate £m
Non-housing	97.235	130.784	48.368
Housing	30.215	39.192	23.515
Total	**127.450**	**169.976**	**71.883**

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 increased 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 services. These figures will be included in the Council's Statement of Accounts, with explanations of significant variations from expectations. The actual capital expenditure incurred in 2018/19 was £64.742 million.

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 and funders.

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 2021 estimate £m**	**31 March 2022 estimate £m**	**31 March 2023 estimate £m**
Non-housing	305	395	423
Housing	126	142	152
Total	**431**	**537**	**575**

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 Statement of Accounts, with explanations for significant variations from expectations. At 31 March 2019 the capital financing requirement was £344.567 million.

3.13 **Statutory repayment of loans fund advances**
The Council is required to set out its policy for the statutory repayment of loans fund advances prior to the start of the financial year. The repayment of loans funds advances ensures that the Council makes a prudent provision each year to pay off an element of the accumulated loans fund advances made in previous financial years.

A variety of options are provided to the Council so long as prudent provision is made each year. The Council is recommended to approve the following policy on the repayment of loans fund advances:-

> For pre-existing loans advances made up to 31st March 2016 and for forward capital expenditure plans made after 1 April 2016, the policy for the repayment of loan advances will be the Statutory Method (option 1), with loan fund advances being repaid by the annuity method.

The repayment of loan advances will therefore be equal to the annual amount determined in accordance with Schedule 3 of the Local Government (Scotland) Act 1975. The Council is permitted to use this option for a transitional period only, of five years until 31st March 2021, at which time it must change its policy to use alternative approaches based on depreciation, asset life periods or a funding/income profile.

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 2020/21 through 2022/23:

Operational boundary for external debt	**2020-21 estimate £m**	**2021-22 estimate £m**	**2022-23 estimate £m**
Borrowing	362	471	512
Other long-term liabilities	69	66	63
Total	**431**	**537**	**575**

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 2020/21 through 2022/23:

Authorised limit for external debt	**2020-21 estimate £m**	**2021-22 estimate £m**	**2022-23 estimate £m**
Borrowing	380	495	538
Other long-term liabilities	69	66	63
Total	**449**	**561**	**601**

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 2019 was £298.865 million of which £224.590 million related to borrowing and £74.275 million 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 2020/21 through 2022/23 is detailed at section 10.3.

4.11 In December 2018 the CIPFA/LASAAC Local Accounting Board confirmed that from 1st April 2020 the CIPFA Code of Practice on Local Authority Accounting would be adopting the accounting standard IFRS 16 Leases. The practical effect of adopting IFRS 16 will be to require any contract the Council has signed which provides the right to rent or lease exclusive use of an asset such as property or vehicles, to be recognised as an asset on the Council's balance sheet with a corresponding debt liability recognised at the present value of the future lease payments. This liability will be treating as additional borrowing, therefore, increasing the Capital Finance Requirement and other associated Prudential Indicators such as the Operational Boundary and Authorised Limit.

4.12 The Council is awaiting advice from external consultants, in relation to the proper accounting treatment under IFRS 16 of the shared Clyde Valley Waste disposal facility, and the subsequent impact on prudential indicators. An initial review of the contracts affected by the change to IFRS 16 indicate that there is no risk of the Authorised Limit above being breached once these contracts are included as part of borrowing. Any adjustment to the Authorised Limit as a result of incorporating IFRS 16 will be required to be approved by Council during 2020/21.

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 2017 edition of the Treasury Management Code has been adopted by the Council from 2019/20 onwards. This requires that the annual treasury management strategy statement is approved by Council, along with treasury limits for the three-year period 2020/21 through 2022/23.

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 2020/21 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 2023 is £575 million (section 3.11). Net external borrowing should not exceed this level and, indeed, the projected operational boundary at 31 March 2023 is £575 million (section 4.4). The Council had no difficulty in meeting this requirement at 31 March 2019 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 2017 edition of the Treasury Management Code has been adopted from the 2019/20 financial year onwards.

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	2020-21 estimate	2021-22 estimate	2022-23 estimate
Non-housing	3.99%	4.41%	4.81%
Housing	39.85%	38.17%	35.42%

† 2021-2023 Non-housing estimates are currently based on the 2020-2021 settlement figures because the current spending review does not extend past 2020-2021.

7.2 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.

7.3 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").

7.4 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	2020-21 estimate	2021-22 estimate	2022-23 estimate
... on Band D Council Tax	£0.00	£0.00	£0.00
... on weekly housing rents	£0.40	£1.21	£2.05

7.5 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 This report covers the requirements of the CIPFA Treasury Management Code of Practice, including the Treasury Management Indicators, and the Scottish Government's 2010 Consent for the Investment of Money by Scottish Local Authorities.

8.3 The Council's **treasury management strategy statement** for 2020/21 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 Arlingclose Limited 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 2020/21 is based upon the views on interest rates, supplemented with market forecasts provided by Arlingclose, 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 24 January 2020 was as follows:

External borrowing position	borrowing position as at 31.03.2019		borrowing position as at 24.01.2020		change in the year
	£m	average interest rate	£m	average interest rate	£m
Long-term borrowings:					
PWLB: fixed rate	171.674	4.70%	168.978	4.59%	– 2.696
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	**224.590**	**4.70%**	**221.894**	**4.62%**	**– 2.696**
Short-term borrowings: nil					
Total of all external borrowings	**224.590**	**4.70%**	**221.894**	**4.62%**	**– 2.696**

10.2 The decrease in Public Works Loan Board (PWLB) borrowing represents the scheduled repayment of loans that matured during the period 1 April 2019 to 24 January 2020. These repayments were funded from investment balances.

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 2021 estimate £m**	**31 March 2022 estimate £m**	**31 March 2023 estimate £m**
Borrowing	280.965	389.240	429.747
Other long-term liabilities	68.896	66.298	63.351
Total external debt	**349.861**	**455.538**	**493.098**
Capital financing requirement	431.000	537.000	575.000
Under-borrowing	**81.139**	**81.462**	**81.902**

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 2019/20 plus the estimates of any additional capital financing requirement for 2020/21 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 2019/20 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 where possible 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. However, significant shorter term borrowing will be required to fund the City Deal projects. This borrowing is required as the grant income for City Deal is phased over a 20-year period from 2015/16, while the project expenditure is incurred from 2015/16 to 2026/27. The requirement for borrowing to cover this period in advance of grant receipt is continually monitored and refined as project designs develop and this requirement is incorporated into the overall Council borrowing forecast.

10.6 **Interest rate forecast**

As part of Arlingclose'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 2020	June 2020	Sept 2020	Dec 2020	March 2021	March 2022	March 2023
Bank Rate	0.75%	0.75%	0.75%	0.75%	0.75%	0.75%	0.75%

Interest rate forecast: PWLB borrowings	March 2020	June 2020	Sept 2020	Dec 2020	March 2021	March 2022	March 2023
5-year loans	2.30%	2.30%	2.35%	2.35%	2.35%	2.45%	2.55%
10-year loans	2.55%	2.60%	2.60%	2.65%	2.65%	2.75%	2.90%
20-year loans	3.00%	3.05%	3.05%	3.05%	3.10%	3.15%	3.20%
50-year loans	3.00%	3.05%	3.05%	3.05%	3.10%	3.15%	3.20%

10.7 **Borrowing decisions**

The main borrowing decisions to be made for 2020/21 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 may need to borrow up to £59.692 million to fund new capital expenditure during 2020/21 and to replace loans due to mature that year.

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 by running down cash balances and foregoing interest earned at historically low rates. However, in view of the overall forecast for long-term borrowing rates to increase gradually over the coming 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.

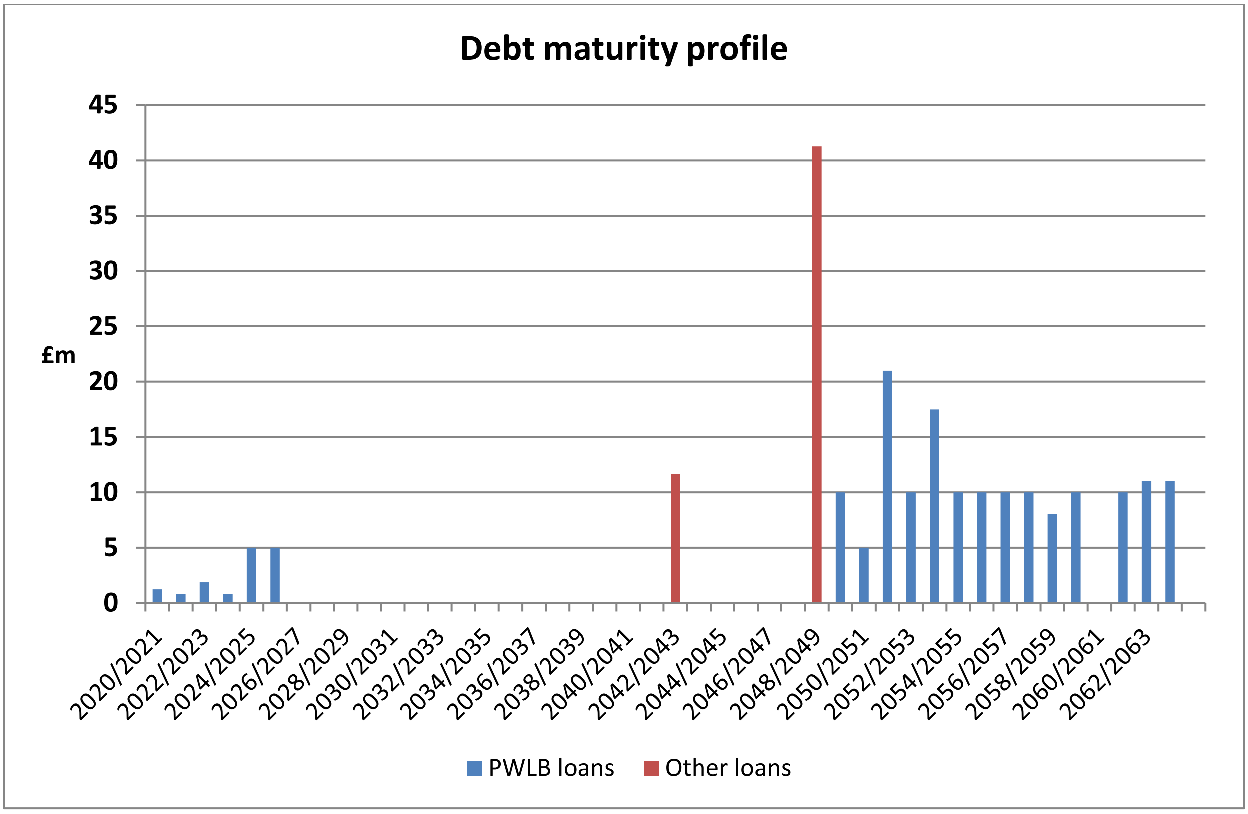
(v) Long-term fixed rate market loans at rates significantly below PWLB rates for the equivalent maturity period (where available), with due regard to maintaining an appropriate balance between PWLB and market debt in the debt portfolio.

10.10 **Sensitivity of the interest rate forecast**
The 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 low.

10.11 The forecast debt maturity profile at 31 March 2020 per the graph below shows the amount of debt maturing in future years. The Council has less than 15% of its total borrowings redeeming in any one of the next 25 years, with one year beyond this period having a repayment in excess of 15%. It is expected this repayment will be rescheduled well in advance of this date. 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 to 2024/25 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: annual 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 2011 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 24 January 2020 was as follows:

External investment position	investment position as at 31.03.2019		investment position as at 24.01.2020		change in the year
	£m	average interest rate	£m	average interest rate	£m
Temporary investments:	153.685	0.88%	147.885	0.85%	– 5.800

11.6 The decrease in the Council's short-term investments ("temporary deposits") during the period reflects:

- the short-term cash flow position of the Council over the Christmas holiday period;
- the re-profiling of elements of the current capital programme.

11.7 The average rate of interest received on the Council's temporary deposits has reduced slightly over the period, although it continues to out-perform the Bank Rate. The reduction reflects the fact that some of the longer-term temporary deposits which the Council had secured at relatively high rates have now matured, with the longer-term rates for new deposits not being as high in relative terms as they had been. The Council has continued to lock into longer-term temporary deposit deals with counterparties of high creditworthiness, securing a higher overall rate of return across the portfolio without compromising the security of investments; and will seek to explore longer term investments with high quality counterparties.

11.8 **Creditworthiness policy**

In order to maintain an approved list of counterparties (institutions with which the Council will invest funds), the Council refers to the institutions listed on the Counterparty Lists provided by Arlingclose. These lists show all the institutions that Arlingclose are comfortable with the Council lending to and are based on the credit ratings from the three major credit rating agencies: Fitch, Moody's and Standard & Poor's. The Council understands that credit ratings are a good, but not perfect, predictor of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests including:

- credit default swap (CDS) spreads, to give early warning of likely changes in credit ratings;
- financial statements;
- sovereign ratings, to select counterparties from only the most creditworthy countries;
- credit ratings relevant to the specific investment or class of investment are used where available;
- financial press.

11.9 The list of counterparties which treasury officers operate 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 5% (with the exception of the Royal Bank of Scotland, for which the counterparty limit has been set at 2.5%). The limits for building societies, money market funds and enhanced cash funds has also been set at 5% of the total cash balances held by the Council at the time the investment is made, and taking into account the relevant investment period. This approach allows the Council to meet its cash flow management objectives whilst appropriately spreading investments over a range of counterparties.

11.10 Arlingclose also recommend the maximum deposit period for each counterparty and this is used as a guide when setting the investment period for each institution shown on the Council's approved list of counterparties.

11.12 All credit ratings are monitored daily. Arlingclose alert the Council to rating changes made by any of the three rating agencies and 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 make its own judgement based on the Adviser's suggestions but 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 was last changed by the Bank of England in August 2018, from 0.50% to 0.75%. The current forecasts from Arlingclose indicate that no further change to the Bank Rate is expected in the period to March 2023. However, there is a downside risk to this forecast due to the economic uncertainties associated with the limited Brexit transitionary period.

11.15 The majority of the Council's surplus cash is currently invested in short-term deposits with other local authorities, as well as investments in money market funds and short-term deposits with banks. Given the increasing risk and very low returns from short-term unsecured bank investments, the Council will continue to invest with other local authorities and in money market funds. 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, 5 and 6 of this Appendix.

12.2 The *Guidance Notes for Local Authorities* which accompany the Treasury Management Code specify an additional treasury management indicator – the maturity structure of borrowing.

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	2020-21	
	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	100%	2 years
Longer-term deposits with local authorities	per approved counter-party list	term	no	20%	10 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
Certificates of deposit issued by banks and building societies	per approved counterparty list	T+1	yes	10%	per approved counter-party list
Treasury bills	UK sovereign rating	T+1	yes	75%	1 year
UK Government gilts	UK sovereign rating	T+1	yes	75%	2 year
Money market funds	long-term AAA vol-atility rating	instant	no	75%	not applicable
Enhanced cash funds	long-term AAA vol-atility rating	T+1 to T+5	yes	75%	not applicable

Pooled funds other than money market / enhanced cash funds	not applicable	various	yes	20%	not applicable

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 Aberdeen Standard Capital) 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 because 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 other local authorities and 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 local authorities, 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 5%* (10% for other local authorities) 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 10%, where the element which exceeds the 5% threshold is deposited on the basis of a call account deposit with the institution.

(iii) *Longer term deposits with other local authorities:* These are similar to term deposits with other local authorities (described at (ii) above), except that deposits are placed for longer periods – between 2 and 10 years. For longer term deposits, the decision to include any given local authority on the counterparty list will be based on the outcome of due diligence undertaken on that local authority by the Council in conjunction with the Council's treasury advisers. Similar to term deposits with local authorities (see at (ii) above), no more than 10% of the total portfolio can be placed with any one institution or group.

(iv) *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.

(v) *Certificates of deposit (CDs) issued by banks and building societies:* These are shorter term securities issued by deposit taking institutions (mainly financial institutions). They are negotiable instruments, so can be sold ahead of maturity and also purchased after they have been issued. However, that liquidity can come at a price, where the yield could be marginally less than placing a deposit with the same bank as the issuing bank.

(vi) *Treasury bills:* These are short term bills (up to 12 months, although none have ever been issued for this maturity) issued by the Government and so are backed by the sovereign rating of the UK. The yield is higher than the rate of interest paid by the DMADF and another advantage compared to a time deposit in the DMADF is that they can be sold if there is a need for access to cash at any point in time. However, there is a spread between purchase and sale prices so early sales could incur a net cost during the period of ownership.

(vii) *UK Government gilts:* These are longer term debt issuance by the UK Government and are backed by the sovereign rating of the UK. The yield is higher than the rate of interest paid by the DMADF and another advantage compared to a time deposit in the DMADF is that they can be sold if there is a need for access to cash at any point in time. However, there is a spread between purchase and sale prices so early sales may incur a net cost. Market movements that occur between purchase and sale may also have an adverse impact on proceeds. The advantage over Treasury bills is that they generally offer higher yields the longer it is to maturity (for most periods) if the yield curve is positive.

(viii) *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.

(ix) *Enhanced cash funds (ECFs):* These funds are similar to MMFs, can still be AAA rated but have variable net asset values (VNAV) as opposed to a traditional MMF which has a Constant Net Asset Value (CNAV). They aim to achieve a higher yield and to do this either take more credit risk or invest out for longer periods of time, which means they are more volatile. These funds can have WAM's and Weighted Average Life (WAL's) of 90 – 365 days or even longer. Their primary objective is yield and capital preservation is second. They therefore are a higher risk than MMFs and correspondingly have the potential to earn higher returns than MMFs.

(x) *Pooled funds other than money market / enhanced cash funds:* Shares or units in diversified investment vehicles covering property, bond and equity investments. Pooled funds whose value changes with market prices and/or that have a notice period may be used for longer investment periods. Money market funds (as well as enhanced cash funds) are included in Table 1, but it is the intention of the Council, given the extent of its long-term investment balances, to diversify an agreed proportion (capped at a maximum of 20% of total investment balances) of its investment balances into longer term assets (property, bonds and equity) utilising pooled funds.

Pooled funds have the advantage of providing wide diversification of investment risks, including credit risk and interest rate risk, coupled with the services of a professional fund manager in return for a fee. Property, bond and equity funds offer enhanced returns over the longer term, but their prices are more volatile in the short term, leading to the risk that they could be sold at below their purchase price. This risk is mitigated by only placing cash that is available for 3 to 5 years into more volatile funds. The Council's officers in conjunction with its treasury advisers have determined that a proportion of the Council's investments have and will remain available for longer term investment in the future. The funds selected will be subject to appropriate scrutiny and suitability assessment, drawing on the experience and advice of the Council's treasury advisers.

(xi) *Operational bank accounts:* The Council may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, with its main operational bank (Clydesdale) with credit ratings of BBB+. These are not classed as investments, but are still subject to the risk of a bank bail-in, and balances will normally be kept below £100,000 however, for short periods normally over public holidays this balance may be higher with the approval of the Director of Finance and Resources.

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

Appendix 7

CAPITAL STRATEGY 2020-23

1. INTRODUCTION

1.1. The Capital Strategy report gives an overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of public services in local government along with an overview of how associated risk is managed and the implications for future financial sustainability.

1.2. Decisions made now on capital and treasury management will have financial consequences for the Council for many years into the future. They are therefore subject to both a national regulatory and local policy framework which are summarised in this report.

2. PURPOSE & AIMS

2.1. Following consultation, in December 2017 the Chartered Institute of Public Finance and Accountancy (CIPFA) published an updated version of the Prudential Code for Capital Finance in Local Authorities ("the Prudential Code").

2.2. The key objectives of the Prudential Code are to ensure, within a clear framework, that;

- Capital investment plans are affordable, prudent and sustainable;
- Treasury management decisions are taken in accordance with good professional practice and in full understanding of the risks involved;
- That these risks will be managed to levels that are acceptable to the organisation;
- Capital investment plans are being made in light of the overall organisational strategy and resources, ensuring that decisions are being made with sufficient regard to the long run financial implications and potential risks to the authority.

2.3. In keeping with the objectives above, the purpose of this Capital Strategy is to demonstrate that the Council takes capital investment decisions in line with service objectives that properly takes account of value for money, prudence, sustainability and affordability, setting out the context in which capital expenditure, capital financing and treasury decisions are being made and has given due consideration to the risk associated with these decisions.

3. OVERVIEW

3.1. An understanding of what constitutes capital expenditure and how it is financed is fundamental to realising the benefits and mitigating the risks open to an authority under the prudential framework.

3.2. Capital expenditure is the investment in new or existing assets, such as property or vehicles, that will generate economic benefits or service improvements that will be realised by the Council for a period of more than one year.

3.3. All capital expenditure must be financed, either from external sources (government grants and other contributions), internal sources (current revenue and capital receipts) or debt (borrowing and leasing).

3.4. Financing capital expenditure through debt offers the opportunity to spread the cost over future revenues through loan fund repayments. However, due to the interest payments associated with debt, the total cost is usually higher than other methods of capital financing. Therefore, careful planning and monitoring procedures must be in place to ensure capital investment decisions offer value for money and are affordable and sustainable for current and future revenue budgets.

4. CAPITAL EXPENDITURE & FINANCING

4.1. The Council is legally obliged to determine the maximum it may allocate to capital expenditure, in line with statutory guidance, the limit is the total shown in the table below. The Housing Revenue Account (HRA) is a ring-fenced account which ensures that council housing does not subsidise, or is itself subsidised, by other local services. HRA capital expenditure is therefore recorded separately.

Capital expenditure	2020-21 estimate £m	2021-22 estimate £m	2022-23 estimate £m
Non-housing	97.235	130.784	48.368
Housing	30.215	39.192	23.515
Total	**127.450**	**169.976**	**71.883**

4.2. The Council Plan "Thriving People, Connected Communities" was agreed in September 2017. It outlines five strategic outcomes for the Council over the period to 2022. The Council Plan forms a "golden thread" that ensures the key strategic priorities of the Council translate into specific capital programmes.

4.3. Below is a summary of the main capital projects within the Capital Plan:

- **Reshaping our place, our economy and our future;**

  Continuation of the City Deal projects of £97.5m which will lead to total investment of £274m in infrastructure in Renfrewshire. The Clyde Waterfront and Renfrewshire Riverside project includes new roads, cycleways and footpaths, including the first opening road bridge across the River Clyde, to connect into the emerging Advanced Manufacturing Innovation District Scotland with more than 2,300 jobs expected to be generated. The Glasgow Airport Access project is working to deliver a new transport link to Glasgow Airport recognising its critical contribution to the regional economy;

  Investment of £82.2m in cultural infrastructure, modernising and improving Paisley Town Hall, Paisley Arts Centre, Paisley Learning & Cultural Hub and Paisley Museum transforming Paisley into an international culture and heritage destination and contributing to the overall regeneration of Paisley town centre;

  £29m invested in the road, cycling and pathway network as part of the medium term investment programme of £42.3m investment which commenced in 2019/20 representing the largest ever sustained investment programme in the network, focussed on delivering a stepped change in the condition of the key routes that keep the Renfrewshire economy moving.

- **Building strong, safe and resilient communities;**

  Investment of £41.9m to continue the regeneration and new council homes in Ferguslie Park, Johnstone Castle and Bishopton providing affordable, modern homes for Renfrewshire;

Continuation of the Community Empowerment Fund with nearly £1m of the original £1.5m capital funding remaining to be able to make use of assets that have the support of local communities and complementing existing services in an area by providing additional activity.

- **Tackling inequality, ensuring opportunities for all;**

  Completion of capital investment of £13.6m into the school estate to expand the early learning and child care from 600 to 1,140 hours by August 2020. Including £6.3m in new build nurseries at Houston, Kirklandneuk, Dargavel and Lochfield with the remainder being construction of new extensions and refurbishments at existing sites.

- **Creating a sustainable Renfrewshire for all to enjoy;**

  Investment of £7.5m to improve the condition and energy efficiency of existing Council Properties.

- **Working together to improve outcomes;**

  Almost £1m to be awarded from the Greenspaces, Parks & Play areas and Villages Fund to support local community groups improve underused or neglected green spaces and take forward projects which will strengthen the character, identity and heritage of the local community.

4.4. A full copy of the Council Plan is available on the Council website: Renfrewshire Council Plan

4.5. As stated in 3.3, all capital expenditure must be financed either from external sources, internal sources or through borrowing. The planned financing of the above expenditure is shown on the table below:

Project Title	Programme 2020/21 £000s	Programme 2021/22 £000s	Programme 2022/23 £000s	Programme 2023/24 £000s	Programme 2024/25 £000s
Prudential Borrowing	22,250	58,784	18,550	12,808	2,200
TOTAL BORROWING	**22,250**	**58,784**	**18,550**	**12,808**	**2,200**
Specific Grant	10,714	3,413	250	250	0
General Capital Grant	12,045	5,600	5,600	2,600	0
City Deal Grant	4,301	4,541	9,769	38,545	51,540
City Deal borrowing	28,637	34,498	14,199	0	360
Usable Capital Receipts	13,267	17,123	0	0	0
C.F.C.R.	6,021	6,824	0	0	0
Total Resource Availability	**97,236**	**130,783**	**48,368**	**54,203**	**54,100**

4.6. Debt is only a temporary source of finance, since loans and leases must be repaid, and is therefore replaced over time by other financing, usually from revenue which is known as loan funds repayments. The Council's cumulative outstanding amount of debt finance that will be charged to future revenue budgets is measured by the capital finance requirement (CFR). The CFR increases with new debt financed capital expenditure and reduces with loan fund repayments, capital receipts can also be used to reduce the CFR. Based on the above figures for expenditure and financing, the Council's estimated CFR is as follows:

Capital financing requirement	31 March 2021 estimate £m	31 March 2022 estimate £m	31 March 2023 estimate £m
Non-housing	305	395	423
Housing	126	142	152
Total	**431**	**537**	**575**

4.7. The loan fund repayments is combined with the interest payable on loans and forms the total that is charged to revenue, known as financing costs. An estimate of the total financing costs as % of net revenue, the amount funded from Council Tax, government grants, business rates and in the case of HRA, rental income, is shown in the table below.

Ratio of financing costs to net revenue stream	2020-21 estimate	2021-22 estimate	2022-23 estimate
Non-housing	3.99%	4.41%	4.81%
Housing	39.85%	38.17%	35.42%

5. ASSET MANAGEMENT

5.1. The Corporate Asset Strategy 2018/21 (CAS) was approved by the Finance, Resources & Customer Services Policy Board in June 2018. The CAS sets out a high-level framework for the management for all the Council's Assets. It guides the development and upkeep of strategies and plans for all classifications of assets.

5.2. The Council's Corporate Asset Strategy 2018/21 can be read in full here: Renfrewshire Corporate Asset Strategy 2018-21

6. TREASURY MANAGEMENT

6.1. Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Council's spending requirements, whilst managing the risks involved. Surplus cash is invested until required while temporary cash shortages will be met by borrowing.

6.2. The Council's Treasury Management Strategy (TMS) contains objectives for borrowing and investments, with the over-arching objective in relation to treasury management activities being effective management and control of risk. The full TMS is within Appendix 6 of this report.

6.3. The main objectives of borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in the future. Statutory guidance is that debt should remain below the CFR except in the short term. As can be seen from the table below, the Council expects to comply with this during 2020/23.

Borrowing Position	2020-21 estimate £m	2021-22 estimate £m	2022-23 estimate £m
Borrowing	281	389	430
Other long-term liabilities	69	66	63
Total External Debt	**350**	**455**	**493**
Capital Financing Requirement	431	537	575
Under borrowing	**81**	**82**	**82**

6.4. The Council is required to set an **operational boundary** for external debt. This is an estimate of the maximum external debt of the Council according to the probable events contained in the Council plans, budgets and strategies. Sustained or regular borrowing above the operational boundary would be significant and require investigation and action.

6.5. The **authorised limit** for external debt is based on the same assumptions as those used to calculate the operational boundary. It is greater than the operational boundary to allow sufficient headroom for unusual or exceptional cash requirements. The authorised limit reflects a level of borrowing which, while not desired, could be afforded in the short term but would not be sustainable in the long term. See paragraph 4.11 of the Prudential Framework in appendix 6 for an explanation of how the adoption of IFRS 16 Leases will affect the CFR, operational boundary and authorised limit. The operational boundary and authorised limits are shown in the table below:

Operational boundary and authorised limit for external debt	2020-21 estimate £m	2021-22 estimate £m	2022-23 estimate £m
Operational Boundary	431	537	575
Authorised Limit	449	561	601

6.6. Treasury investments arise due to cash flow timings in receiving cash before it is due to be paid out again at a later date. The main objectives of treasury investments are to obtain an acceptable market rate of return subject to protecting capital security and liquidity of invested funds. This ensures the focus is on minimising risk rather than maximising returns. An important element of the Council's recent medium term planning has included the strategy of debt smoothing which involves the repayment of debt over the medium term as part of the Council's planned budget, capital investment and treasury management strategies. The current debt smoothing strategy will naturally conclude in the near future.

7. COMMERCIAL ACTIVITIES

7.1. These are investments made outside the normal treasury management activity, such as property investments, with the sole aim of making a financial surplus. The Council has no such investments at this time.

8. OTHER LONG TERM LIABILITIES

8.1. In addition to the debt of £350 million detailed in 6.3 above, the Council has contracted through a Public Private Partnership for the provision and maintenance of educational and other facilities. The outstanding finance lease obligation at the 31st March 2020 will be £71.4m.

8.2. The Council is part of the Local Government Pension Scheme in Scotland (LGPS) which is a funded, defined benefit, statutory occupational pension scheme. As a funded scheme, the council and employees pay contributions into the fund, calculated at a level intended to balance the scheme's pension liabilities with the scheme's investment assets. At the 31st March 2019, it was estimated that the Council's share of the defined obligation exceeded scheme assets by £276.7m. An updated estimate will be calculated for the 2019/20 annual accounts.

8.3. Provisions are made when an event has taken place that gives the Council a legal or constructive obligation that will probably require a settlement, usually in cash but it can be other economic benefit or service benefits. At the 31st March 2019 the Council had set long term provisions of £5.4m related to holiday pay compensation payments, insurance claims and other claims. The long term provisions will be re calculated for the 2019/20 annual accounts.

9. GOVERNANCE

9.1. **Capital Programmes:** Potential capital projects will be assessed for strategic fit, achievability, affordability, practicality, revenue impact and non-monetary impacts such as future economic growth, environmental or social well-being.

9.2. Once the capital projects have been considered, the Capital Plan is approved annually by the full Council, setting out the funding available, means of financing and Prudential Indicators. No capital expenditure can be authorised unless it has been provided for in the approved capital plan or is within an officer's delegated authority. The Financial Regulations set out the framework for transferring money from one budget to another.

9.3. Capital budget monitoring reports from the Director of Finance and Resources are considered by the relevant Policy Board including any explanations for significant variances from budget targets and the Policy Board will approve any actions required to bring financial performance within approved limits.

9.4. Each capital programme is under the control of a responsible project manager who will approve and monitor expenditure against the programme. The project manager will receive support from a variety of sources within Finance & Resources, for example to receive capital budget reports, to ensure that the expenditure complies with the statutory definition of capital, that any external contracts agreed comply with the Standing Orders of the Council or any advice over legal matters.

9.5. **Treasury Management:** Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Director of Finance & Resources and relevant staff who must act in within the parameters set out in the Treasury Management Strategy approved annually by full Council. A mid-review of treasury management activity is presented each year to the Finance, Resources and Customer Services Policy Board with a full year review reported to Council.

9.6. **Commercial Activities:** Property investments would be classified as capital expenditure and therefore included as part of the capital plan. Any commercial investment decisions would be made by the Council in line with the Financial Regulations and Standing Orders of the Council.

10. KNOWLEDGE AND SKILLS

10.1 The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. The Council ensures qualified staff meet their continuous professional development requirements. The Council provides support to finance staff for training and study towards relevant professional qualifications.

10.2 Council staff knowledge and experience is supplemented by the use of external advisors and consultants that are specialists in their field. For example, the Council currently has a contract with Arlingclose Ltd for the provision of treasury management consultancy services. This approach is more cost effective than employing such staff directly and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.