North Ayrshire Council
Comhairle Siorrachd Àir a Tuath

Cunninghame House,
Irvine.

23 February 2017

North Ayrshire Council

You are requested to attend a Special Meeting of the above mentioned Committee of North Ayrshire Council to be held in the Council Chambers, Cunninghame House, Irvine on **WEDNESDAY 1 MARCH 2017** at **1.00 p.m.** to consider the undernoted business.

Yours faithfully

Elma Murray

Chief Executive

1. Apologies

2. Declarations of Interest
Members are requested to give notice of any declarations of interest in respect of items of business on the Agenda.

3. Minutes of Special Meeting of Cabinet
Submit report, being the Minutes of the Special Meeting of the Cabinet of North Ayrshire Council held on 1 March 2017 (copy to follow).

4. Audit Scotland Report: Local Government in Scotland Financial Overview 2015/16 (Page 5)
Submit report by the Executive Director (Finance and Corporate Support) on the findings of the recent Audit Scotland report (copy enclosed).

5. **General Services Revenue Estimates 2017/18 to 2019/20 & Capital Investment Programme 2017/18 to 2025/26 (Budget Paper 1)**
Submit report by the Executive Director (Finance and Corporate Support) on (a) the Council's revenue spending requirements and anticipated funding for the years 2017/18 to 2019/20; (b) the level of reserves and fund balances held by the Council; (c) options to address the funding gap; and (d) the draft Capital Investment Programme to 2025/26 (copy enclosed)

6. **Housing Revenue Account (HRA) Capital Investment Programme, Revenue Budget and Rent Levels for 2017/18 (Budget Paper 2)**
Submit report by the Executive Director (Finance and Corporate Support) on the HRA capital investment programme and revenue budget for 2017/18 and the consequential rent levels (copy enclosed).

7. **Treasury Management & Investment Strategy 2017/18 (Page 59)**
Submit report by the Executive Director (Finance and Corporate Support) on the proposed Strategy for Treasury Management and Investment activities within the Council for the financial year 2017/18 (copy enclosed).

8. **Revenue Estimates 2017/18 - Common Good and Trusts (Pages 99)**
Submit report by the Executive Director (Finance and Corporate Support) on the anticipated annual income and expenditure of the Common Good Funds and Trusts administered by North Ayrshire Council and seek approval for the level of grant funding to be made available for disbursement in 2017/18 (copy enclosed).

9. **Urgent Items**
Any other items which the Provost considers to be urgent.

North Ayrshire Council

Sederunt:			
	Ian Clarkson	(Provost)	Attending:
	Robert Barr	(Depute Provost)	
	John Bell		
	Matthew Brown		
	John Bruce		
	Marie Burns		
	Joe Cullinane		
	Anthea Dickson		
	John Easdale		
	John Ferguson		
	Alex Gallagher		
	Willie Gibson		
	Tony Gurney		
	Jean Highgate		
	Alan Hill		
	John Hunter		Apologies:
	Elizabeth McLardy		
	Grace McLean		
	Catherine McMillan		
	Peter McNamara		
	Ronnie McNicol		
	Louise McPhater		
	Tom Marshall		
	Jim Montgomerie		
	Alan Munro		Meeting Ended:
	David O'Neill		
	Irene Oldfather		
	Donald Reid		
	Robert Steel		
	Joan Sturgeon		

NORTH AYRSHIRE COUNCIL

Agenda Item 4

1 March 2017

North Ayrshire Council

Title:	**Audit Scotland Report: Local Government in Scotland Financial Overview 2015/16**
Purpose:	To inform Council of the findings of the recent Audit Scotland report.
Recommendation:	That Council (i) notes the findings of the recent Audit Scotland report, (ii) notes the current position in North Ayrshire and (iii) considers these as part of the budget deliberations included elsewhere on the agenda

1. Executive Summary

1.1 Audit Scotland recently published its 2015/16 financial overview of local government in Scotland. The report, attached at Appendix 1, has been published earlier than in previous years to allow councils the opportunity to use the report's findings to inform their 2017/18 budget setting.

1.2 The report provides a high level examination of the financial performance of local government in Scotland for 2015/16 based on an analysis of councils' annual accounts and their annual audit reports. The report is in two parts covering the councils' income and expenditure for 2015/16 and providing commentary on the financial outlook for councils at the end of 2015/16.

1.4 The report identifies a number of questions which can assist councillors in understanding their council's financial position and scrutinising its financial performance. These questions are published in a separate self assessment supplement which is attached at Appendix 2.

1.5 This report highlights the key messages and other issues identified within the Audit Scotland report and notes the current position of North Ayrshire Council in relation to these.

2. Background

Financial Overview 215/16

2.1 Audit Scotland previously produced an annual "Overview of Local Government in Scotland Report" which examined how local authorities were responding to the main challenges they faced. Audit Scotland have now developed a revised approach to overview reporting for local government and plan to produce a series of reports throughout the year. The attached report is the first of these new overview reports and examines the strategic financial position of local government in Scotland in 2015/16.

2.2 The Audit Scotland report is split into 2 main sections:

- Part 1 – Income and Spending;
- Part 2 – The Financial Outlook.

2.3 Income and Spending

Key Messages

2.3.1 The overall financial health of local government in Scotland was generally good in 2015/16 with a slight increase in the overall level of reserves held by councils combined with a reduction on overall debt. External auditors did not raise any concerns about the immediate financial position of any councils and issued unqualified opinions on all councils' accounts for the fifth year.

2.3.2 Including HRA, councils receive more than half of their income from the Scottish Government. There has been a long term decline in grant funding from the Scottish Government and this is expected to continue, putting greater pressure on Council budgets.

2.3.3 Councils have managed their finances well in responding to the pressures faced. In 2015/16, 15 councils had planned to use reserves to support spending. However, only 7 councils actually drew on their reserves during the year and overall revenue reserves held by councils increased in 2015/16.

2.3.4 Total council expenditure for 2015/16 was £19.5 billion. While expenditure on the provision of services remains lower than in 2011/12, expenditure in key services is increasing. This is most notable in social care and is due to rising demand from an aging population. During 2015/16 many councils overspent on their social care budgets and this poses a risk to their longer term financial position. The report states that councils must ensure that budgets reflect actual spending patterns to allow the impact of current spending on their financial position to be clearly understood.

2.3.5 In addition to the growing demands on services, councils need to manage other financial pressures such as wage inflation and increasing pension costs. It is essential that councils have long term financial strategies and plans in place which align with their priorities and are supported by medium term financial plans and budget forecasts.

Other Issues

2.3.6 Councils annual accounts now include a management commentary section which helps readers understand the accounts and the council's financial position. Councils should ensure that the management commentary explains their financial performance and presents the financial story of the council in an understandable format.

2.3.7 Although overall council income from Scottish Government funding increased in 2015/16, combined revenue and capital funding for councils has reduced by 8.4% between 2010/11 and 2016/17.

2.3.8 Overall council spending on services increased during 2015/16, driven in part by additional Scottish Government funding to support national educational priorities. However, overall council expenditure remains 1.4% lower than in 2011/12.

2.3.9 The majority of Councils underspent significantly against their General Fund and HRA capital budgets in 2015/16.

2.3.10 Over two thirds of councils remained in line with their overall budget in 2015/16. However, there were significant variations in performance within councils with one third of councils reporting overspends within social work services, as noted above, whilst a similar number reported underspends within Education services.

2.4 The Financial Outlook

Key Messages

2.4.1 Some councils have been building up reserves and reducing borrowing in anticipation of further spending reductions. The level of usable reserves held by councils has increased by 5% during 2015/16 while net debt levels have decreased.

2.4.2 The proportion of council income spent on servicing debt has a direct impact on the level of income available to support services. This varies between councils, however, at the end of 2015/16 net debt across all councils was £13.72 billion, with the cost of the associated interest and debt repayments at around £1.5 billion per year.

2.4.3 Although the overall deficit in the Local Government Pension Scheme reduced from £10.0 billion to £7.6 billion in 2015/16, councils and pension funds continue to face challenges from reduced or negative returns on investments and increasing administration costs following the introduction of auto enrolment.

2.4.4 All councils face future funding gaps, however, there is significant variation in how well placed individual councils are to address them. Reliance on the use of reserves is not sustainable and councils will need to make further savings or generate additional income. Councils' ability to make savings is influenced by a number of factors including national policy commitments, the cost of servicing debt, the level of savings already approved and their plans for transforming how services are delivered.

2.4.5 Councils require strong leadership and sound financial advice in order to make the tough decisions required around their finances. In addition to the alignment of long term financial strategies to council priorities, decision making should be supported by well developed medium term financial plans and budget forecasts which allow councillors and officers to assess the impact of any spending decisions on the long term financial position of the council.

Other Issues

2.4.6 Net debt across councils decreased during 2015/16 as councils made use of usable cash reserves to finance capital expenditure for which they would otherwise have had to borrow. The availability of internal reserves and the forecast cost of interest rate changes for external borrowing are important considerations when developing council capital investment plans.

2.4.7 While usable reserves can be used to support services or invest in capital expenditure, councillors must consider their use as part of the longer term financial plans of the council as reserves can only be used once. Issues of sustainability can be addressed by ensuring that the investment of reserves is directed to generate future savings or support service transformation.

2.4.8 Recent Best Value audits have indicated that councils have relied on incremental savings to address funding gaps. The Accounts Commission is of the view that this approach is neither sufficient nor sustainable given the scale of the financial challenges facing councils

2.5 North Ayrshire Council

Current Position

2.5.1 North Ayrshire Council’s audited annual accounts for 2015/16 noted the level of usable reserves available to the Council to support service delivery was reported at £55.7 million. £46.8 million of this has been earmarked for specific spending priorities, including £12.7 million to support the capital programme and £12.2 million for the HRA reserve. This leaves £8.9 million of uncommitted General Fund balances. This is equivalent to 2.7% of the Council’s annual budgeted expenditure and is a reduction of £1.4 million from that reported in 2014/15. The current level of unearmarked reserves is in line with CIPFA guidance, which suggests that unearmarked reserves should be in the range of 2% to 4%. For North Ayrshire this equates to between £6.5 million and £13.5 million.

2.5.2 As noted in North Ayrshire Council's audited accounts for 2015/16, the level of HRA usable reserves was £12.2 million. This was an increase of £1.1 million from that reported in 2014/15. The HRA reserve included £5.8 million earmarked to support the new house building programme with a further £5.4 million set aside for other initiatives including the impact of welfare reform, refurbishments and improvements. The remaining £1.0 million is unearmarked and represents 2.2% of the gross expenditure.

2.5.3 Reserves are reviewed annually to ensure fit with financial planning assumptions with the current level of unearmarked reserves considered prudent given the scale of financial challenges which the Council anticipates.

2.5.4 Financial sustainability is a key area of focus of the new Code of Audit Practice and all future external audit reports will comment on the sustainability of councils.

2.5.5 For 2015/16, the final outturn position identified underspends in all services with the exception of contributions to the Health and Social Care Partnership, which reported an overspend of £2.1 million. As at November 2016, the Health and Social Care Partnership is forecasting an overspend of £5.4 million with the Council services element of the projected overspend at £3.0 million. The Health and Social Care Partnership continues to explore options to mitigate this overspend. If no mitigation is established the Partnership will close in a deficit position which will require to be recovered in future years. The Audit Scotland report states that future budgets should reflect actual spending patterns, within North Ayrshire consideration is given to this alongside the requirement to deliver savings and ensure robust financial discipline.

2.5.6 As part of its annual report on the 2015/16 audit, Audit Scotland noted that financial management within North Ayrshire Council remained strong with robust budget setting in place to deliver services in line with the Council's priorities.

2.5.7 North Ayrshire Council's medium term financial plans covering each 3 year rolling period are the basis for the annual revenue budgets agreed by Council each year. The Audit Scotland report suggests that North Ayrshire Council only presented information for two years when approving its 2016/17 budget, however the report to Council contained information on the anticipated funding gap for 2018/19 within the narrative of the report. An update on the medium term financial plan for 2017/18 to 2019/20 was reported to Council in September 2016 and highlighted the key issues and risks arising from the economic and financial outlook as well as the UK and Scottish Government priorities and the assumptions and pressures which had been identified in developing the plan.

2.5.8 In May 2013, North Ayrshire Council approved a long term financial strategy for the 10 years up to 2022/23. In developing the longer term financial plan an assessment of the significant pressures which the Council will face over the period was undertaken based on the best available information. The underlying assumptions on which the strategy is based are kept under review to ensure that the Council continues to plan on a sound and current basis. A full refresh of the strategy will take place in 2017/18.

2.5.9 As part of its annual accounts, North Ayrshire Council includes a detailed management commentary which contains clear information on the Council's financial performance and provides contextual information on the Council, the risks it faces and its plans for the future.

2.5.10 In 2015/16, the approved budgets for the General Fund and HRA Capital Investment programmes was £52.0 million and £29.3 million respectively. Adjustments to the programme budgets were approved during 2015/16 to reflect additional funding received and revisions to the programme identified throughout the year including accelerated expenditure on the Garnock Campus, delays in the new build programme at Fencedyke and a reduction in the works required to meet housing energy efficiency standards. Actual expenditure reported for the General Fund Capital Investment programme was £56.2 million against a revised budget of £55.4 million. For the HRA Capital Investment programme actual expenditure was £20.0 million against a revised budget of £21.1 million with £1.0 million of the underspend carried forward to support the House Building Programme.

2.5.11 The value of North Ayrshire Council's overall debt, as a percentage of its annual income, at 31 March 2016 was the fifth lowest of all Scottish local authorities. The net debt reported in North Ayrshire Council's annual accounts reflects the revised HRA and General Fund Capital Investment programmes with the funding strategy for this investment detailed in the Treasury Management and Investment Strategy. The investments programmes and strategies are approved by Council each year.

2.5.12 In November 2015, Cabinet approved Transformation 2 and, when Council set its budget in February 2016, Directors identified a number of Service Reform Options that would help bridge the Council’s future funding gap. The value of savings emerging from a number of these work streams are included within the budget proposals. It is clear that, given the anticipated scale of the financial challenge, this may require more radical approaches to service delivery.

Key Messages for North Ayrshire Council

2.5.13 A summary of the key messages for the Council is noted below;

- note the reinforcement of the message of anticipated reduction to grant funding;
- continue to develop sustainable medium and long term financial plans aligned to key outcomes;
- note that incremental change will not be sufficient or sustainable in bridging the anticipated funding gap and the need to develop further the Council's transformation programme;
- ensure an appropriate level of unearmarked reserves, recognising the uncertainty and significant financial challenge that Councils face;
- note that external audit will assess the financial sustainability of the Council;
- ensure robust financial discipline across services continues to be applied;
- support the Health and Social Care Partnership deliver outcomes within an agreed financial envelope.

3. Proposals

3.1 That Cabinet notes the findings of the recent Audit Scotland report and the current position in North Ayrshire.

4. Implications

Financial:	The report highlights the anticipated reduction in grant funding. The development of medium and longer term financial plans will allow the Council to identify the financial pressures and develop sustainable solutions to bridge the anticipated funding gap. North Ayrshire Council develops medium term financial plans on a three year rolling basis and work has commenced to refresh the Council's Long Term Financial Strategy during 2017/18. Financial sustainability, including the need to ensure an appropriate level of reserves, will be a key focus of future external audits.
Human Resources:	As part of a sustainable financial strategy the Council will continue to actively manage the the size of its workforce. regular communication and consultation will take place with the workforce and Trade Unions.
Legal:	There are no direct legal implications associated with this report.
Equality:	An equality impact assessment will be carried out for all options identified as part of the medium and long term financial plans.
Environmental & Sustainability:	There are no direct environmental and sustainability benefits associated with this report.
Key Priorities:	In addressing the financial challenges which it faces, the Council will seek to minimise the impact on meeting its key priorities.
Community Benefits:	There are no direct community benefits associated with this report.

5. Consultation

None

LAURA FRIEL
Executive Director (Finance and Corporate Support)

Reference :
For further information please contact David Forbes, Senior Manager (Financial Management) on 01294 324551

Background Papers
North Ayrshire Council Annual Accounts 2015/16
Audit Scotland : Annual Report on the 2015/16 Audit – Audit and Scrutiny Committee – 23 September 2016

Local government in Scotland

Financial overview 2015/16

ACCOUNTS COMMISSION

Prepared by Audit Scotland
November 2016

The Accounts Commission

The Accounts Commission is the public spending watchdog for local government. We hold councils in Scotland to account and help them improve. We operate impartially and independently of councils and of the Scottish Government, and we meet and report in public.

We expect councils to achieve the highest standards of governance and financial stewardship, and value for money in how they use their resources and provide their services.

Our work includes:

- securing and acting upon the external audit of Scotland's councils and various joint boards and committees
- assessing the performance of councils in relation to Best Value and community planning
- carrying out national performance audits to help councils improve their services
- requiring councils to publish information to help the public assess their performance.

You can find out more about the work of the Accounts Commission on our website: www.audit-scotland.gov.uk/about/ac

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

Contents

Links

PDF download

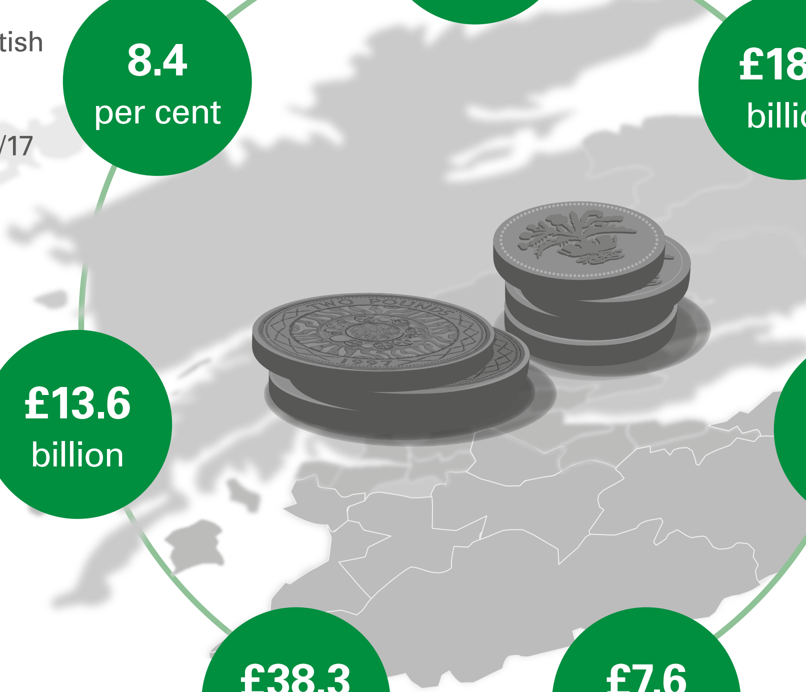
Web link

Exhibit data

When viewing this report online, you can access background data by clicking on the graph icon. The data file will open in a new window.

These question mark icons appear throughout this report and represent questions for councillors.

Key facts



- **£18.9 billion** – Council income in 2015/16
- **£18.3 billion** – Spending on day-to-day services in 2015/16
- **£2.5 billion** – Councils' usable reserves at 31 March 2016
- **£7.6 billion** – Councils' share of the Local Government Pension Scheme deficit at 31 March 2016
- **£38.3 billion** – The value of councils' physical assets, including buildings, schools and equipment
- **£13.6 billion** – Councils' net debt at 31 March 2016
- **8.4 per cent** – Real-terms reduction in Scottish Government funding between 2010/11 and 2016/17

Chair's introduction

This financial report is the first of our new overview outputs. It tells the strategic financial story for local government in Scotland in 2015/16, another challenging year for councils. Overall, councils responded well by controlling their spending and have also increased reserves and reduced debt. Scottish Government funding has fallen in real terms in recent years and, although there was a small annual real-terms increase in 2015/16, it fell again in 2016/17. Councils also continue to face cost pressures, including increasing pension costs and wage inflation. We recognise councils have been making difficult decisions when setting their budgets and that this has required a disciplined approach to delivering savings. This disciplined approach must continue when we move into the 2017 election year, as significant challenges lie ahead and councils need to be well placed to meet them.

In anticipation of reductions in future Scottish Government funding, most councils have continued to increase their reserves. Councils must consider how and when reserves are used to support services, in line with their financial plans and reserves policies, as they can only be used once and relying on them is not sustainable. All councils have identified future funding gaps that will need to be addressed through making savings or using reserves. How well placed individual councils are to address these funding gaps is a combination of the relative size of the funding gap, the reserves they hold, and their ability to identify and make savings and to service debt.

Financial scrutiny and transparency in financial reporting are themes that recur throughout this report. Under the new *Code of Audit Practice 2016*, auditors will comment on the financial sustainability of councils. It is important that all councils have long-term financial strategies in place that support their strategic priorities, underpinned by more detailed financial plans and indicative budgets that cover the next three to five years. These will help councillors and officers assess the impact of approved spending on their current and future financial position.

Our new approach to overview reporting

This year, we have developed our approach to overview reporting for local government into a series of outputs throughout the year. We will examine the performance of council services and the challenges facing councils in our upcoming overview report in March 2017, but hope that the links between good financial and service performance remain clear.

We are publishing this analysis of the 2015/16 accounts and audit findings a few months earlier than usual, so that they can be considered by councils and councillors when setting their 2017/18 budgets. In addition to this report and the accompanying supplements, an interactive exhibit and additional financial information are available on our website. These will allow council officers and councillors to look at areas that may be of particular interest to them and to compare their council with others.

I hope this report and the supplementary information prove to be informative and help shed light on the complex nature of local government finances. We welcome feedback and will use this to inform our approach to overview reporting in future years.

Douglas Sinclair
Chair of Accounts Commission

Summary

Key messages

1 The overall financial health of local government was generally good in 2015/16 and there was a slight increase in overall reserves and a reduction in overall debt. Auditors did not raise concerns about the immediate financial position of Scotland's councils and, for the fifth year in a row, issued unqualified opinions on councils' accounts.

2 Significant challenges for local government finance lie ahead. Councils' budgets are under increasing pressure from a long-term decline in funding, rising demand for services and increasing costs, such as pensions. There is variation in how these pressures are affecting individual councils, with some overspending their total budgets or budgets for individual services such as social care. It is important that councils have effective budgetary control arrangements in place to minimise unplanned budget variances that can affect their financial position.

3 Councils need to change the way they work to deal with the financial challenges they face. All councils face future funding gaps that require further savings or a greater use of their reserves. There is variation in how well placed councils are to address these gaps.

4 Long-term financial strategies must be in place to ensure council spending is aligned with priorities, and supported by medium-term financial plans and budget forecasts. Even where the Scottish Government only provides councils with one-year financial settlements, this does not diminish the importance of medium and longer-term financial planning. This is necessary to allow councillors and officers to assess and scrutinise the impact of approved spending on future budgets and the sustainability of their council's financial position.

councils have managed their finances well but significant challenges lie ahead

About this report

1. This report provides a high-level, independent view of councils' financial performance and position in 2015/16. It is aimed primarily at councillors and senior council officers as a source of information and to support them in their complex and demanding roles. It is in two parts:

- Part 1 (page 9) focuses on the councils' income and expenditure in 2015/16 and trends over time.
- Part 2 (page 19) comments on the financial outlook of councils at the end of 2015/16 and outlines important factors to be considered in assessing future spending plans.

2. Throughout this report we present a detailed analysis of councils' finances in 2015/16 and, where appropriate, comparisons over a five-year period (2011/12 to 2015/16). Our primary sources of information are councils' audited accounts and their 2015/16 annual audit reports. We have supplemented this with other information supplied by auditors and councils. This includes budget information collected by auditors shortly after councils approved their 2016/17 budgets and which informed our analysis of councils' projected funding gaps up to 2018/19.

3. Where we refer to councils' funding in 2016/17, we use information from the Scottish Government's 2016/17 Local Government financial settlement. Although we do not audit this information, we feel it is important to make appropriate references to funding in the current financial year. Where we have done this, we have analysed trends since 2010/11 when Scottish Government funding peaked.

4. We refer to real-terms changes in this report where we are showing financial information from past and future years in 2015/16 prices, adjusted for inflation, so that they are comparable to information from councils' 2015/16 accounts. In general we compare income and expenditure items in Part 1 in real-terms but do not adjust items in Part 2 as they are adjusted in their preparation.

5. Throughout the report, we identify questions that councillors may wish to consider to help them better understand their council's financial position and to scrutinise financial performance. The questions are also available in Supplement 1: Self-assessment tool for councillors on our website.

6. We recognise that complex financial information is often presented differently for different purposes. For example, local finance returns (LFRs), which councils submit to the Scottish Government, present spending information for councils on a different basis from the spending information that councils record in their annual accounts. There are also differences in how funding is recorded in different sources. Alongside this report, we have published a short supplement to explain the main differences in the way financial information is reported. This is included in the self-assessment tool for councillors.

7. Accompanying this report, and to facilitate insight and comparisons across the sector, we have provided additional financial information on our website. The information is based on councils' audited accounts. We hope this will be useful for senior council finance officers, their staff and other interested stakeholders.

Part 1

Income and spending

Key messages

1 The overall financial health of local government was generally good in 2015/16 and there was a slight increase in overall reserves and a reduction in overall debt. Auditors did not raise concerns about the immediate financial position of Scotland's councils and, for the fifth year in a row, issued unqualified opinions on councils' accounts.

2 More than half of councils' income comes from the Scottish Government. Councils have experienced a long-term decline in their grant funding from the Scottish Government. This is expected to continue to fall in future, putting greater pressure on budgets.

3 Councils have managed their finances well so far in responding to the pressures they face. In 2015/16, 15 councils planned to use some of their reserves to support spending and, across local government, revenue reserves were forecast to decrease. However, only seven councils drew on their reserves and, overall, revenue reserves increased in 2015/16.

4 Councils spent £19.5 billion in 2015/16. Spending on providing services remains lower than in 2011/12, but is increasing in key services, most noticeably in social care because of rising demand from an ageing population. Many councils overspent their social care budgets and this poses a risk to their longer-term financial position. Councils need to ensure budgets reflect true spending patterns so that the impact of current spending on their financial position is clearly understood.

5 Over and above growing demands on services, councils need to manage other financial pressures such as increasing pension costs and wage inflation. It is essential that councils have long-term financial strategies and plans in place that align with their priorities and are supported by medium-term financial plans and budget forecasts.

there has been a long-term decline in grant funding to councils, this is to continue

All councils received an unqualified audit opinion on their 2015/16 accounts but they can better use their accounts to explain financial performance

8. The overall financial health of local government was generally good in 2015/16. All accounts were received on time and, for the fifth consecutive year, auditors issued all of Scotland's 32 councils with a true and fair unqualified audit opinion on their 2015/16 accounts.

9. Over two-thirds of councils operated within their budgets and there was a slight increase in overall reserves and a reduction in overall debt. Auditors did not raise concerns about the short-term financial position of Scotland's councils, but raised a number of concerns about individual councils facing significant funding gaps over the next two to three years.

10. For the last two years, councils have produced a management commentary to accompany their annual accounts. These commentaries play an important role in helping readers to better understand the accounts and a council's financial performance. As such, they should include explanations of amounts included in the accounts as well as:

- a description of the council's strategy and business model
- a review of the council's business
- a review of principal risks and uncertainties facing the council
- an outline of the main trends and factors likely to affect the future development, financial performance and financial position of the council.

11. The management commentary should concisely present the financial 'story' of a council in an understandable format for a wide audience. Auditors express an opinion on whether the management commentary is consistent with the audited financial statements.

12. Analysis of the management commentaries shows variation in how clearly councils explain their financial and general performance. However, there is a general improvement from last year. It is the Commission's view that councillors have an important role in ensuring that the management commentary effectively tells the story of the council's financial performance and can be understood and scrutinised by a wide audience.

Does the management commentary section of the annual accounts provide a clear and easily understandable account of the council's finances?

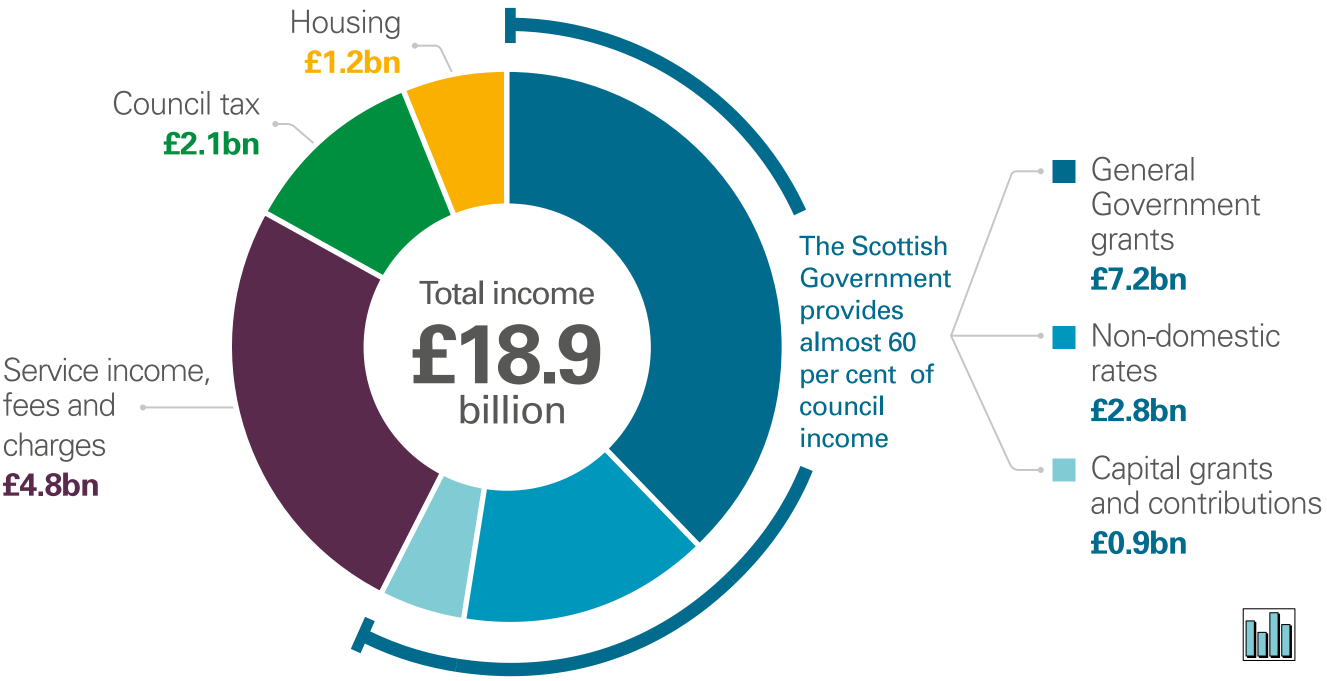
Scottish Government funding increased in 2015/16 but has reduced significantly over the longer term

13. In 2015/16, councils' total revenue and capital income was £18.9 billion, a real-terms increase of 2.9 per cent since 2014/15. £10.9 billion (57 per cent) of this came from the Scottish Government (Exhibit 1, page 11). The share of council income coming from the Scottish Government has reduced slightly from 2014/15 (58 per cent), mainly because of a large increase in income from service fees and charges.[1]

14. Scottish Government grants are councils' major source of income. Between 2010/11 and 2015/16, Scottish Government funding (combined revenue and capital) for councils reduced in real terms by around £186 million (1.7 per cent) to £10.9 billion.[2] Taking into account 2016/17 funding, councils have experienced a real-terms reduction in funding of 8.4 per cent since 2010/11. This is approximately the same as the reduction in the Scottish Government's total budget over the same period.

Exhibit 1
Sources of councils' income in 2015/16

Councils' total income in 2015/16 was £18.9 billion and almost 60 per cent (£10.9 billion) of this came from the Scottish Government.



Notes: 1. Figures have been rounded to one decimal place so the sum of the categories does not exactly match total income. 2. Service income, fees and charges may include specific service-related grants and income such as payments from the Scottish Government, NHS or other councils. It also includes funds returned to councils from Integration Joint Boards. 3. Capital grants and contributions include income from the Scottish Government and others such as central government bodies, National Lottery and the European Union. As the majority is in the form of Scottish Government capital grants, we have included this within income provided by the Scottish Government.

Source: Councils' audited annual accounts, 2015/16

In 2015/16, councils received a slight increase in revenue funding from the Scottish Government to support the implementation of national policies

15. The Scottish Government allocates councils a set amount of revenue funding from both grants and non-domestic rates (NDR). In 2015/16, this amounted to £10.0 billion. This represents a real-terms annual increase of 1.1 per cent but a 2.1 per cent reduction since 2010/11.

16. Revenue grants totalled £7.25 billion in 2015/16 and included: £560 million for continuing to freeze council tax at 2007/08 levels; around £350 million to replace council tax benefit previously provided by the UK Government; and additional funding for implementing other Scottish Government policies, such as maintaining teacher numbers and pupil to teacher ratios. In their accounts, councils record income from Scottish Government funding differently from how it is allocated (Supplement 1: Self-assessment tool for councillors). As a result, councils' accounts show income from Scottish Government general revenue grants of £7.2 billion in 2015/16. This represents a real-terms reduction in councils' income of £38.0 million since 2014/15.

17. An increasing proportion of revenue funding is coming from NDR (29 per cent in 2015/16 compared to 22 per cent in 2010/11). The increase in NDR income in recent years has not fully offset reductions in revenue grant funding.

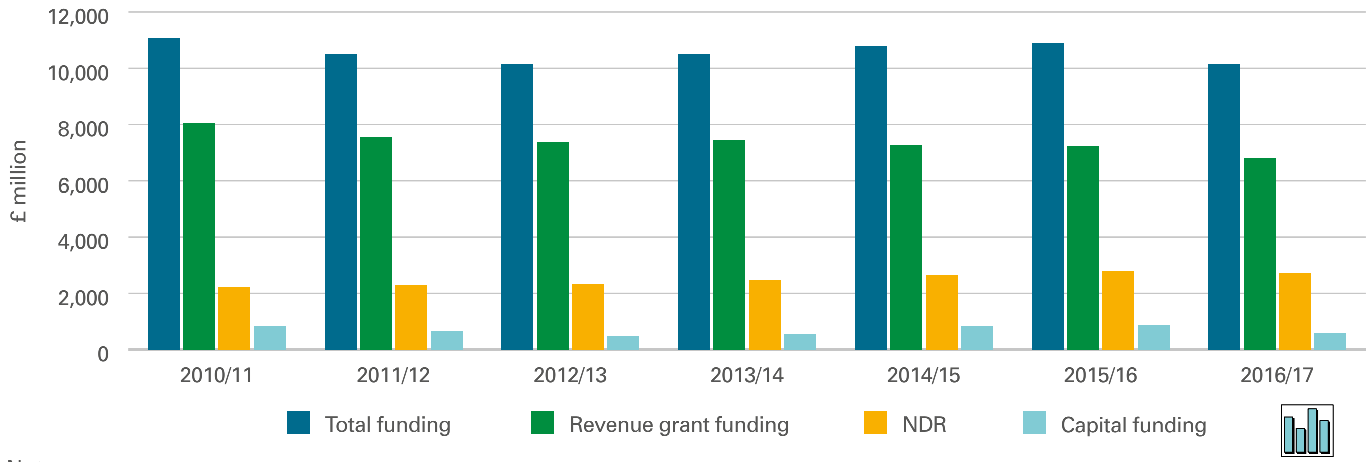
Scottish Government revenue funding fell by almost seven per cent between 2010/11 and 2016/17, and further reductions are expected

18. In 2016/17, Scottish Government grant funding has fallen by £489 million to £9.6 billion. This is a greater reduction than in previous years and represents a real-terms annual reduction in revenue grant of 5.9 per cent and NDR of 2.2 per cent. Since 2010/11, combined revenue funding has fallen by 6.8 per cent (Exhibit 2).

Exhibit 2

Scottish Government funding to councils from 2010/11 to 2016/17, at 2015/16 prices

Councils are experiencing a long-term reduction in revenue funding.



Notes:

1. Funding allocations up to 2012/13 have been adjusted to remove funding for police and fire. Responsibility for these services transferred from local to central government in April 2013. From 2013/14, revenue funding includes payments for council tax reduction, replacing council tax benefit previously coming from the UK Government. We have also adjusted these figures for specific elements of the local government settlement relating to adjustments for police and fire pensions.
2. Since 2013/14, Scottish Government revenue funding has included payments of around £350 million per year to fund council tax reductions, replacing council tax benefit which previously came from the UK Government.
3. The 2016/17 figures do not include £250 million the Scottish Government allocated to health and social care integration authorities specifically for social care. This is an allocation from the Scottish Government health budget to NHS boards, rather than councils. The NHS boards will allocate this funding to the integration authorities.

Source: Local Government Finance Circulars 2011-16, Scottish Government

19. Councils expect revenue funding to decrease in future years, although the extent of this is not clear as, the Scottish Government has provided councils with one-year funding settlements in 2015/16 and 2016/17. Councils contend that this constrains their ability to develop meaningful long-term financial strategies and medium-term financial plans. However, the challenging financial environment further strengthens the case for councils taking a long-term view of their finances Part 2 (page 19). There should be clear links between financial strategies and plans and councils' strategic priorities to provide a basis for decision-making.

How do you consider potential changes to income streams and their impact on spending and services as part of medium and long-term planning?

Income from NDR and council tax increased in some councils in 2015/16

20. In 2015/16, councils received £2.79 billion in NDR income, a real-terms annual increase of £134.3 million (5.1 per cent). Twenty-six councils saw an increase in their NDR income in 2015/16. This ranged from a £12.1 million (16.0 per cent) reduction in Falkirk Council to an increase of £26.5 million (7.3 per cent) in City of Edinburgh Council.

21. Council tax income was £2.1 billion in 2015/16, a real-terms annual increase of £32.3 million (1.6 per cent). With council tax levels being frozen nationally (paragraph 16), real terms increases and decreases will come about through changes in council tax relief and collection rates, as well as changes in the number of households paying council tax through new housebuilding, empty homes and/or depopulation. Council tax income increased in 29 councils but decreased in real terms in three (Aberdeenshire 1.4 per cent, Argyll and Bute 0.1 per cent and East Lothian 1.7 per cent.)

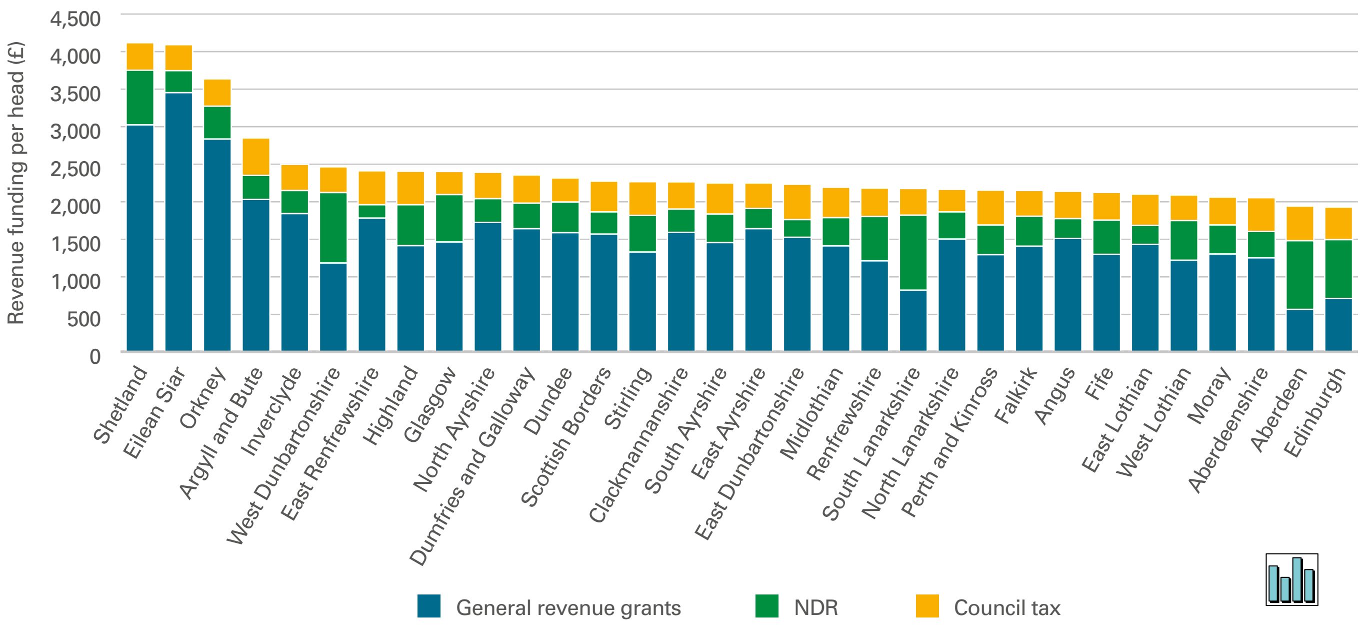
22. Councils collected 95.7 per cent of council tax in 2015/16. This was up from 95.3 per cent in 2014/15. Collection rates ranged from 93.6 per cent in Dundee City Council to 98.5 per cent in Perth and Kinross Council. We will look in more detail at councils' performance in collecting council tax and the associated costs in our March 2017 report.

23. The funding available to councils from Scottish Government general revenue grants, NDR and council tax varies widely. For Scotland, this equated to £2,232 per person in 2015/16. This is around £14 (0.6 per cent) higher in real terms than in 2014/15 and around £214 (8.8 per cent) lower than in 2011/12. The highest revenue funding per person was in Shetland Islands Council, around £4,118; and the lowest was around £1,928 in City of Edinburgh Council (Exhibit 3). The variation in funding per head between councils can impact upon both their financial performance and financial position.

Exhibit 3

Revenue funding from general grants and taxation, 2015/16

Revenue funding per head varies significantly by council.



Note: General revenue grant funding allocations for individual councils are decided by a needs-based formula that takes into account a variety of factors including rurality (including an allowance for island authorities) and levels of deprivation.

Source: Councils' audited accounts for 2015/16; and General Registrar of Scotland mid-year population estimate for 2015

Councils are raising an increasing proportion of their income through fees, charges and specific grants

24. Councils' 2015/16 accounts show income from fees and charges and other specific grants income totalled £4.8 billion. In real terms, this was £324.0 million (7.2 per cent) more than in 2014/15 and represents the largest growth area in council income. Service income increased in a number of areas, including education, roads and transport. The most significant increase was within social work and social care services, reflecting how councils have accounted for funds provided by Integration Authorities for delivering services.[3] Service income from other areas, including environmental and planning and development services, fell in real terms.

25. Councils' accounts do not show how much of their income is specifically from service charges. In 2013, the Accounts Commission highlighted that councils need to be clear about how their charging policies affect local citizens.[4] Charges should not be set in isolation. Any decision to vary or introduce charges to generate income should take account of the council's priorities. We will be looking at this again in our future work programme.

Is income from fees and charges clearly reported?

What increases in fees and charges are planned and how will these affect your citizens? Do you consider local economic impacts?

How do your fees and charges compare to other councils?

Capital income increased in 2015/16, reflecting earlier Scottish Government decisions about capital funding

26. In 2015/16, councils' total capital income was £0.9 billion. This represented a real-terms annual increase of £50.4 million (5.8 per cent). £856.3 million of this capital income came from Scottish Government grant funding. Between 2010/11 and 2015/16, capital funding from the Scottish Government increased by three per cent in real terms.

Is your capital investment programme appropriately funded?

27. As part of its 2011/12 Spending Review, the Scottish Government rescheduled some of councils' planned capital grant funding for 2012/13 and 2013/14 by two years. As a result, capital allocations in 2014/15 and 2015/16 were around 50 per cent more than originally planned. Scottish Government capital funding in 2016/17 has fallen to £597.9 million owing to the Scottish Government again rescheduling capital funding (£150 million) to later years.

28. When councils borrow, it is mainly to finance assets such as buildings, schools and houses. Councils' current and planned capital expenditure therefore impacts upon what they borrow, their total levels of debt and the level of reserves they hold. In Part 2 (page 19), we examine the financial position of councils and how debt and reserves directly affect this.

Councils' spending on services increased in 2015/16 but is lower than five years ago

29. In 2015/16, councils spent £19.5 billion (revenue and capital). This real-terms increase of £708.9 million on 2014/15 was driven by increased spending in 22 councils. Although councils spent £0.6 billion more than their income, this can be attributed in part to accounting adjustments that councils must make in their annual accounts.

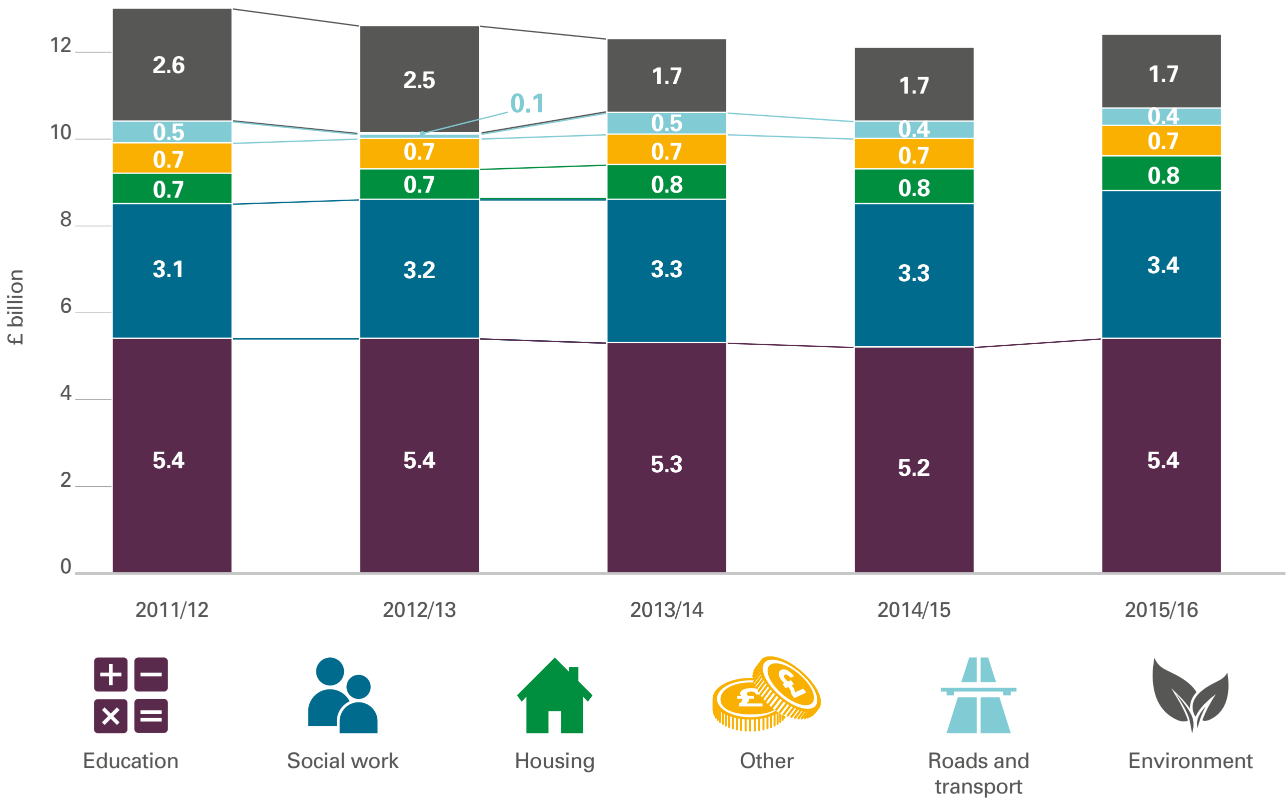
30. Councils' spending included pensions and interest on borrowing, but the vast majority (94.2 per cent) was spent on providing services to their communities. At £18.3 billion, this was a real-terms increase of £756.6 million (4.3 per cent) on 2014/15.

31. Twenty-six councils own council houses. In 2015/16, these 26 councils spent £1.3 billion on council housing, around 6.5 per cent of total local government spending. This ranged from three per cent of total spending in Shetland Islands Council to 19.2 per cent of spending in Aberdeen City Council.

32. Overall, council expenditure remains 1.4 per cent lower than in 2011/12. Councils have managed financial pressures by controlling net spending (spending minus service income) over time. However, net service spending in 2015/16 was higher than in 2014/15, at £12.4 billion. The increase in 2015/16 included a real-terms increase of £217.3 million in net spending on education, driven by additional funding from the Scottish Government to support national educational priorities.

33. Real-terms spending on other services, such as roads and housing, has been maintained or reduced over time. The exception to this is social work and social care, where net spending has increased by £268 million (8.6 per cent) since 2011/12 (Exhibit 4). This reflects the increasing demand from a growing elderly population, which presents a huge challenge for both health and social care.[5]

Exhibit 4
Council spending on main services, 2011/12 to 2015/16 (at 2015/16 prices)
Councils have reduced or maintained real-terms net spending in a number of service areas, but there have been annual increases within social work.



Notes:
1. The figures show net spending, which is the total amount spent less any income from fees, charges or other service income.
2. Housing figures include spending from the General Fund (GF) and Housing Revenue Account (HRA).

Source: Councils' audited annual accounts, 2011/12-2015/16

Councils spent around £2.4 billion on capital projects in 2015/16, with around a quarter of this spent on council housing projects

34. Of the £19.5 billion that councils spent in 2015/16, £2.4 billion (12 per cent) was on investing in capital projects such as buildings, roads and equipment. Just over a quarter of this capital spending (£632 million, 27 per cent) was on council housing projects. Capital spending ranged from £13.8 million in Shetland Islands Council to £191.9 million in City of Edinburgh Council.

35. There is a wide range in the scale of councils' capital investment programmes relative to their other expenditure. For example, less than seven per cent of total spending in East Ayrshire Council was on capital projects, while it was over 20 per cent of total spending in Highland Council. Capital investment will be driven largely by the condition of councils' current estate and their local priorities. Capital investment can reduce ongoing revenue expenditure and generate income, but it also incurs long-term costs that impact on councils' revenue budgets.

36. The majority of councils (28) underspent significantly against their combined General Fund and Housing Revenue Accounts (HRA) capital budgets in 2015/16. Common reasons for this were project delays and project slippage where spending did not progress as expected. Where possible, councils attempted to offset this by bringing projects scheduled for later years forward into 2015/16. For example, Angus Council spent £48.3 million on its General Fund capital programme in 2015/16, £4.0 million (eight per cent) less than budgeted. This was after the council offset some of the forecast shortfall by bringing forward two education projects and beginning them in 2015/16 rather than in 2016/17.

Do you know what slippage there has been in capital projects and why? Are you assured that appropriate action is being taken?

Over two-thirds of councils remained within their overall budgets in 2015/16 but there were variations within individual services

37. Councils are required to submit their annual budget and expected expenditure (provisional outturn) to the Scottish Government. Like the budgets presented to councillors, these are prepared on a funding basis and this differs from the figures in the annual accounts (Supplement 1 outlines the differences).

38. Throughout the year councils will revise their initial budget estimates to take into account factors such as extra funding. Our analysis of annual accounts and the information councils provide to the Scottish Government indicates that provisional outturns were relatively accurate when compared to actual spending, with actual expenditure being within two per cent in most cases. (Exhibit 5, page 17).

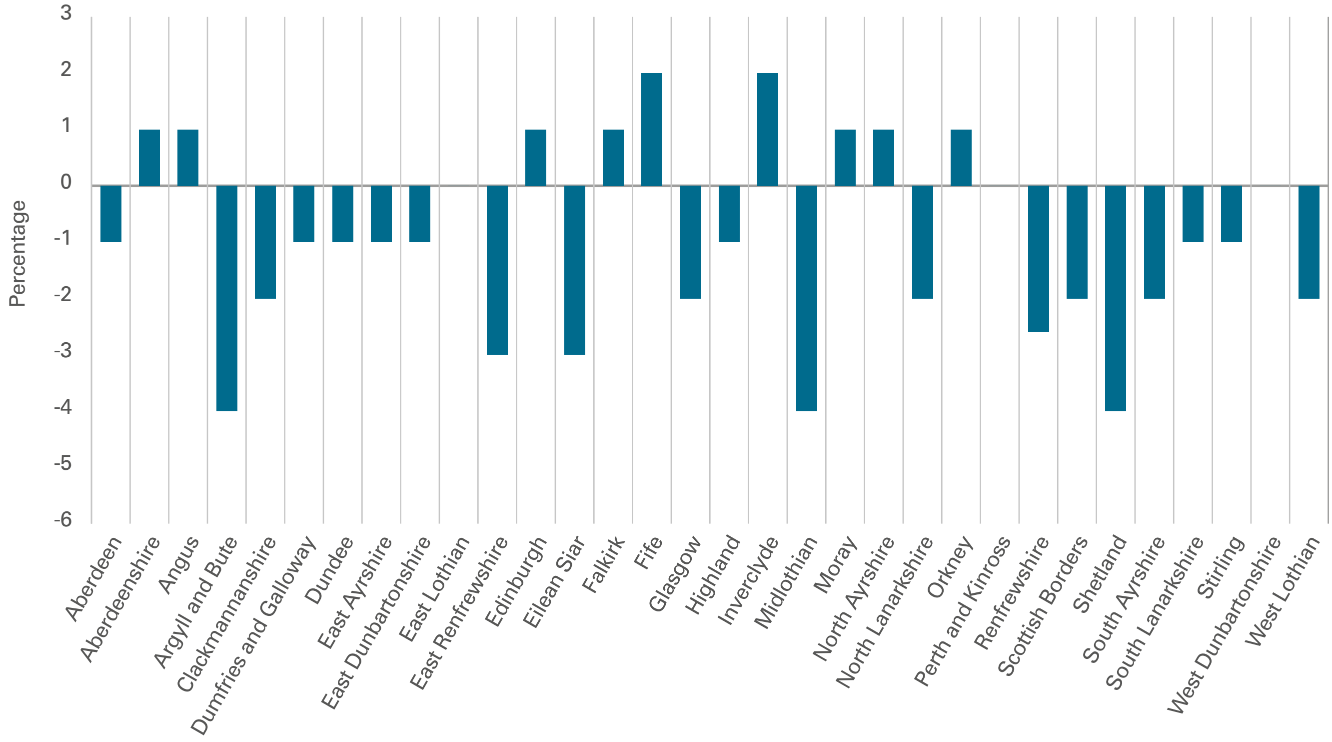
39. While over two-thirds of councils have remained in line with their overall budgets in 2015/16, there are significant variations in how different services have performed within councils. Where some services are significantly overspending, this may be offset by underspends elsewhere and result in a council remaining within their overall budget.

Do service budgets reflect your priorities?

Are potential overspends highlighted to you as they occur and before year-end?

40. Our review of councils' annual audit reports has highlighted a number of service areas where councils commonly over-or underspent against their budgets. Around a third of the reports highlighted overspending in social work or elements of social work services. Aberdeenshire Council, for example, overspent against its adult social work budget by £2.0 million, with a £2.7 million overspend on care packages being the main contributor to this. A number of councils, including Clackmannanshire, Dundee and Falkirk, reported overspending relating to fostering services and residential school placements.

Exhibit 5
Councils' provisional and actual net service expenditure, 2015/16
Only a few councils spent significantly more or less than they estimated near the end of the year.



Note: Budget figures that councils submit to the Scottish Government are prepared on a funding basis (Supplement 2). While there is no corresponding figure in the annual accounts, we are able to adjust the figures from the accounts to allow final service spending from the accounts to be compared to councils' provisional outturns.

Source: Councils' audited accounts 2015/16; and Provisional Outturn and Budget Estimate Statistics 2015/16, Scottish Government

41. Conversely, around a third of councils reported underspending against their education budgets or elements of these, and several councils underspent against their social work budgets. Last year, we reported that City of Edinburgh Council overspent its health and social care service budget by £5.9 million owing to demand pressures. In 2015/16, the service received additional funding of £9.8 million to provide additional short-term support and underspent its total budget by £3.4 million.

42. The need for budgets and forecasts to reflect actual spending becomes increasingly important for councils with decreasing or low levels of usable reserves to draw on. Councils cannot continue to rely on underspends in certain services offsetting overspending elsewhere. Where services have been found to consistently overspend, budgets should be revised to reflect true spending levels and patterns. This requires good financial management to ensure spending is accurately forecast and monitored within the year. The impact of current spending approved by councillors on the financial position can only be accurately assessed if budgets are robust.

Are there services where you are consistently over or under spending against your budget? Are such variances adequately explained?

Councils continue to generate savings through reducing their workforce

43. Councils have continued to reduce their workforces to make recurring savings. In doing so, they incur significant initial costs, typically lump sum payments for redundancy or early retirement, and additional payments to pension schemes if employees are offered enhanced benefits or early access to their pension. Councils' decisions on reducing their workforce numbers through exit packages are supported by business cases which set out the associated costs and potential savings. Councils will typically expect to recoup the costs and start making savings within a few years.[6]

44. In 2015/16, 2,246 staff left councils through exit packages at a total cost of £79.7 million. This represents an average cost of around £35,500 per package. In the last five years, just over 13,000 staff have left councils through exit packages at a cost of £518.5 million (at 2015/16 prices) (Exhibit 6). We will consider how councils are managing their workforces in more detail in our March 2017 report.

?

Are exit packages supported by business cases setting out the total estimated costs and savings?

Exhibit 6

Number and cost of staff exit packages, 2011/12 to 2015/16

Over 13,000 staff have left via exit packages since 2011/12 at a cost of £518.5 million at 2015/16 prices. The average cost per package has been reducing since 2012/13 and is less than £40,000 over the period.

2015/16 prices	2011/12	2012/13	2013/14	2014/15	2015/16	Total
Number of packages	4,070	2,407	2,373	1,933	2,246	**13,029**
Cost of packages (£m)	156.9	112.7	94.2	75.0	79.7	**518.5**
Cost per package (£)	£38,555	£46,818	£39,681	£38,798	£35,504	**£39,797**

Source: Councils' audited accounts 2011/12-2015/16

Equal pay claims impact on councils' financial position

45. Equal pay remains a substantial issue for local government and continues to be of public interest. Settling claims may require councils to use a significant amount of their usable reserves, influencing their financial position. The Accounts Commission is currently carrying out a performance audit on equal pay and will publish our findings in 2017.

Part 2

Financial outlook

Key messages

1 By the end of 2015/16, usable reserves had risen by five per cent across local government and net debt decreased slightly for the second year in a row. Some councils are building up reserves and reducing borrowing in anticipation of further funding reductions.

2 Councils' net debt currently stands at £13.72 billion. Councils currently spend around £1.5 billion a year on the associated interest and repayments. The proportion of their income that councils spend on servicing debt varies and this has direct implications for the amount available to spend on services.

3 Local Government Pension Scheme (LGPS) deficits decreased from £10.0 billion to £7.6 billion in 2015/16. Despite this, councils and pension funds continue to face challenges from below-target or negative returns on investments and increasing administration costs.

4 All councils face future funding gaps and there is significant variation in how well placed individual councils are to address them. Councils will need to make further savings and/or generate additional income as relying on reserves is not sustainable. Opportunities to make savings are partly affected by national policy commitments and the costs of servicing debt. Councils' ability to make savings will also be influenced by the level of savings they have already made and the extent of their plans for transforming how services are delivered. It is therefore important that councils' savings plans are achievable within the timescales required.

5 Councils face tough decisions around their finances that require strong leadership and sound financial management. Long-term financial strategies must be in place to ensure council spending is aligned with priorities. Decisions need to be informed by well-developed medium-term financial plans and budget forecasts that allow councillors and officers to assess the impact of approved spending on their longer-term financial position.

all councils should have long-term financial strategies supported by more detailed financial plans

Councils continued to increase their usable reserves and reduced their net external debt in 2015/16

Usable reserves reached £2.5 billion in 2015/16

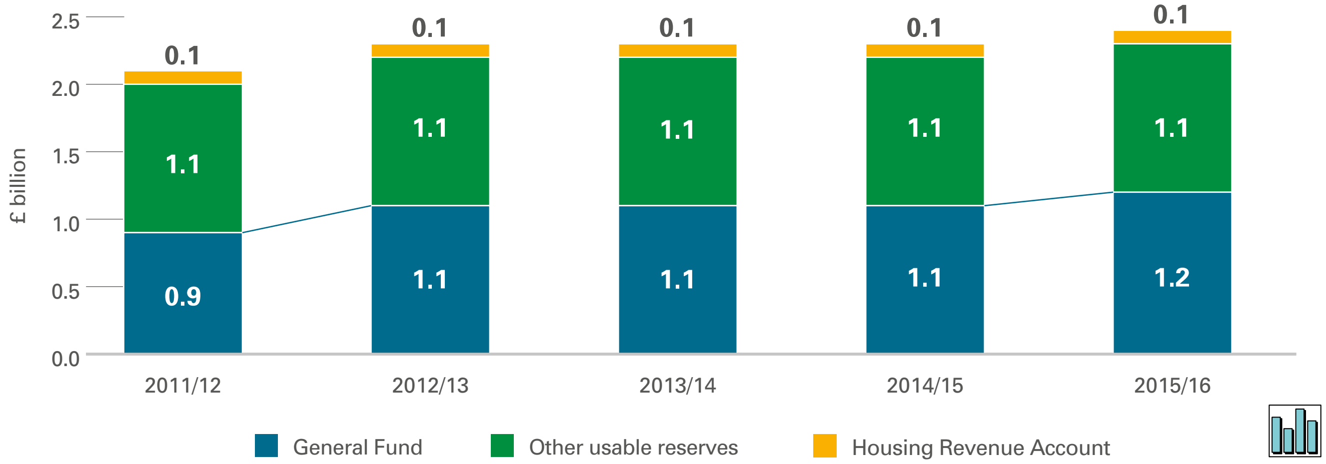
46. Councils' reserves at 31 March 2016 were £18.9 billion. Of these, £2.5 billion (13 per cent) were usable reserves that can be used to support services (these are often referred to as cash-backed reserves). The remainder were unusable reserves (£16.4 billion), which represent accounting adjustments to reflect things such as an increase in the value of council-owned buildings. Continuing the trend in recent years, councils increased both their usable and unusable reserves during 2015/16.

47. Usable reserves comprised £1.9 billion of revenue and £0.6 billion of capital reserves. The General Fund, which can be used to support a wide variety of services, is the largest usable reserve. Together with the Housing Revenue Account (HRA) reserve, these represent over half of usable reserves (Exhibit 7).

Exhibit 7

Councils' usable reserves, 2011/12 to 2015/16

Usable reserves have increased since 2011/12.



The level of General Fund reserves as a proportion of income from general revenue grants, NDR and council tax income has increased slightly since 2011/12.

2011/12	2012/13	2013/14	2014/15	2015/16
7.6%	8.8%	9.2%	9.4%	9.8%

Note: Other usable reserves are primarily attributable to Orkney and Shetland Islands holding large reserves relating to oil, gas and harbour related activities.

Source: Councils' audited accounts 2011/12-2015/16

48. Twenty-three councils increased their General Fund reserves in 2015/16, resulting in an overall increase of £58.0 million (5.2 per cent) to £1.2 billion. This is equivalent to about nine per cent of councils' available revenue income from

Scottish Government grants, NDR, council tax and council house rents. Half of the 26 councils with council houses increased their HRA reserves. This resulted in HRA reserves increasing by £11.9 million (9.2 per cent) overall to £141.8 million.

49. While usable reserves can be used to support services, councillors must consider how and when these are used as they can only be used once. Use of reserves must comply with the council's annually reviewed reserves policy. This should be clearly linked to financial plans and consideration must be given to the impact on future financial position. Using reserves to support services in the short term is not sustainable unless they are used to support service transformation and generate future savings. A significant proportion of usable reserves held by councils have already been allocated for specific purposes and so will not be available for other uses.

Do you know what levels of reserves are needed and why?

Do you think reserves are being used effectively?

Net debt decreased again in 2015/16, but is set to rise as councils use their reserves to fund services

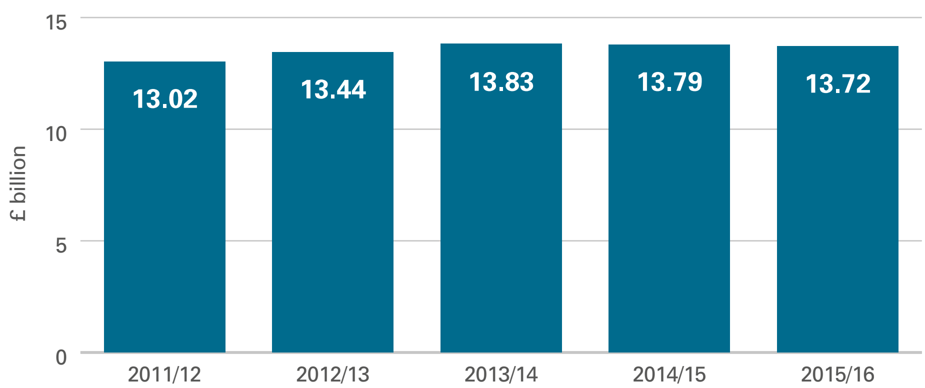
50. In 2015/16, Scotland's councils owned physical assets worth £38.3 billion. Councils can borrow from both external and internal sources to fund capital investment in new assets, such as building a school. Councils' assess the affordability of borrowing decisions under CIPFA's Prudential Code and it is up to individual councils as to what they borrow to invest in assets. External borrowing involves a council borrowing from another public sector body, from the financial markets or entering into a public-private partnership. Internal borrowing is when a council temporarily borrows from funds it has available, such as its reserves. This can delay it having to borrow externally. By doing this, a council will avoid paying costs to a lender but will also forego interest it could receive by investing its reserves.

51. For the second year in a row, councils' net debt (total external debt minus investments) decreased in 2015/16. The fall in net debt is largely a result of councils having higher levels of usable cash reserves that they can either invest or use to finance the capital expenditure for which they would otherwise have to borrow. Councils now have debt of around £15.2 billion and investments of around £1.5 billion. This means net debt is £13.72 billion, a reduction of £69 million (0.5 per cent) since 2014/15 (Exhibit 8).

Exhibit 8

Councils' net external debt, 2011/12 to 2015/16

Councils' net external debt has been falling but remains higher than in 2011/12.



Note: Orkney and Shetland Islands councils hold large reserves and investments related to oil, gas and harbour activity so are excluded from this analysis of net debt.

Source: Councils' audited accounts 2011/12-2015/16

52. We estimate value of internal borrowing across councils is about £0.9 billion. Interest payable on external debt is higher than the interest a council can receive on investments and so councils are utilising more internal borrowing to save money.

53. A key treasury management decision for councils will be when to borrow rather than use their cash reserves to fund projects. This will be influenced by councils' capital investment plans, the extent to which reserves are needed to support service spending as cost pressures increase (which means councils will need to borrow externally to replace the reserves used for internal borrowing) and whether any forecast change in interest rates makes external borrowing more attractive. The link between capital plans and debt is important and councillors must have a clear understanding of how changes in capital programmes will affect their council's debt position. Our report *Borrowing and treasury management in councils* outlines this in more detail.[7]

Councils spend around £1.5 billion on servicing debt each year

54. Councils' external debt comprises borrowing from a variety of sources:

- the Public Works Loan Board (PWLB), which is a UK Government agency
- long-term liabilities from assets acquired under public/private partnerships, including the Public Finance Initiative (PFI), Public/Private Partnerships (PPP) or the Scottish Government's newer Non-Profit Distributing (NPD) model (paragraphs 58 and 59)
- lender option/borrower option loans (LOBOs) (paragraph 60)
- other market loans.

55. Within councils' accounts, debt is categorised by when it has to be repaid and not by source. It is also discounted to take into account factors such as when it has to be paid and interest payments. The source and value of councils' external debt in 2015/16 is shown in Exhibit 9 (page 23).

56. The presentation of local government accounts mean that it is not always possible to identify whether a council's debt is related to its HRA or its General Fund. This is an important distinction, as the cost of servicing HRA debt will affect council house rents, whereas the cost of servicing General Fund debt will need to be met from general revenue grants, NDR and council tax that are typically used to fund services.

57. The capital finance requirement included in councils' accounts, a measure of what council debt still needs to be financed, can be split between the HRA and General Fund. Using this split, we have apportioned debt to both the HRA and General Fund Exhibit 10 (page 23). This shows considerable variation.

58. Most council debt takes the form of traditional fixed interest rate loans, providing certainty over future interest payments. The exception to this is PFI/PPP/NPD debt and LOBOs. The cost of PFI/PPP/NPD debt is generally acknowledged to be more expensive than traditional borrowing, as repayments are usually inflation-linked. Councils should have considered this in their value for money assessments. Councils with a high proportion of PFI/PPP/NPD debt will have to make more complex affordability assessments for future borrowing. Exhibit 11 (page 24) shows levels of General Fund debt relative to the size of council, with the debt split between borrowing and other long-term liabilities (PFI/PPP/NPD and finance leases).

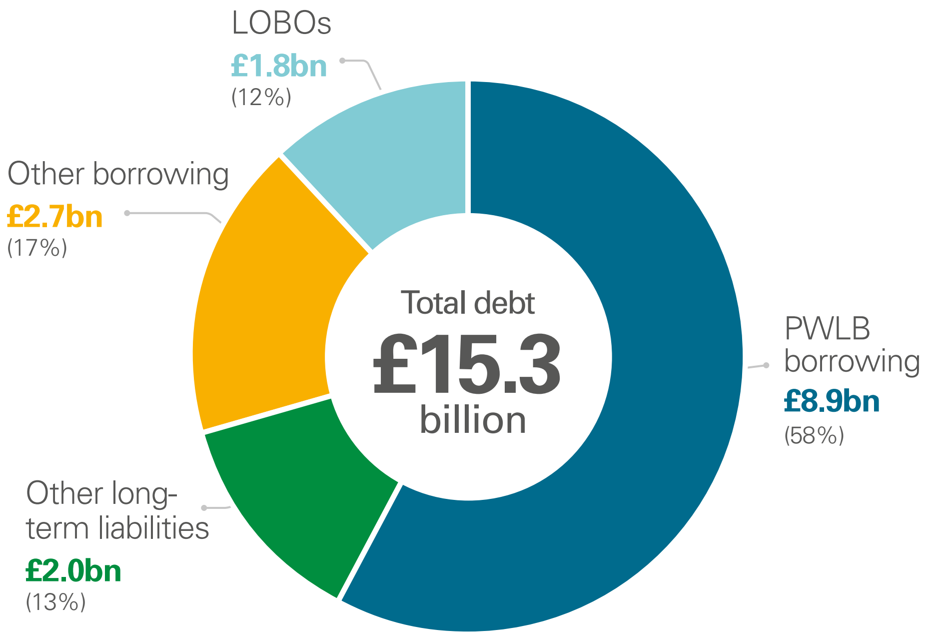
?

Are there clear links between the capital programme and treasury management strategy?

Do you know the implications that different types of borrowing options have on future revenue budgets?

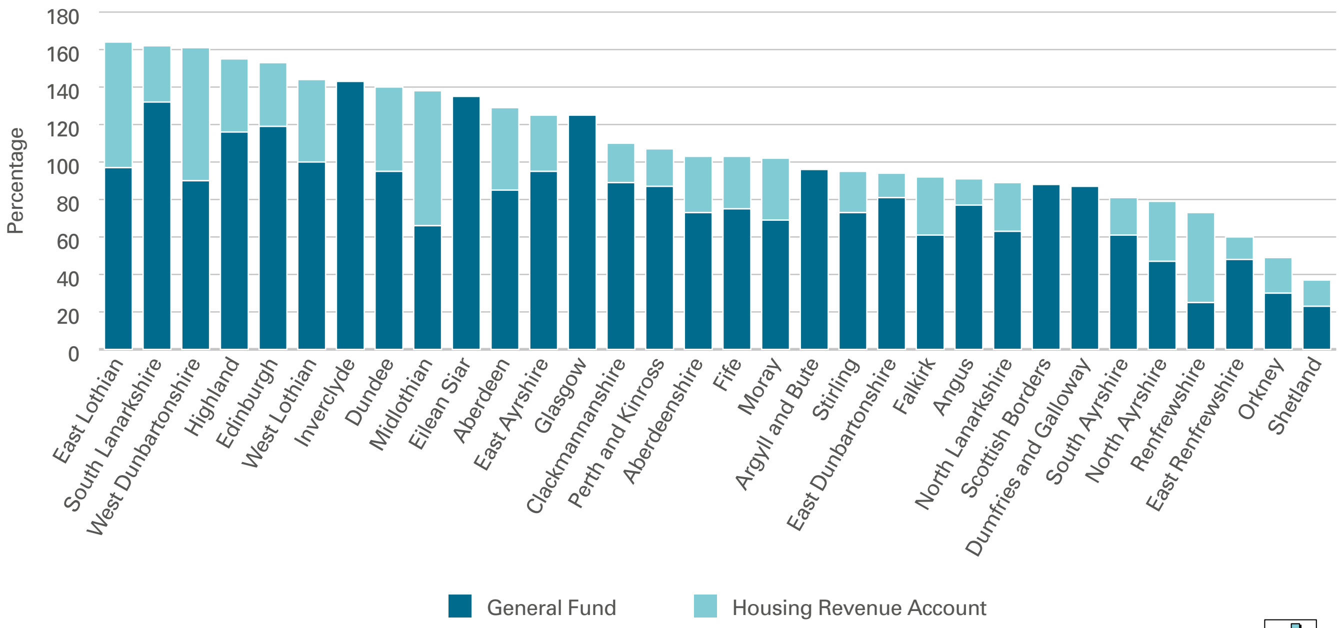
Do you know the split in debt between General Fund and HRA (where applicable)? Is this reported within your management commentary?

Exhibit 9
Sources of councils' debt, 2015/16
Over half of council debt is borrowing from the PWLB.



Note: Total figure subjects to rounding.
Source: Councils' audited accounts 2015/16 and auditor returns

Exhibit 10
Councils' total debt as a proportion of their annual income, 2015/16
Councils' debt varies from less than half to more than one and a half times their annual income.

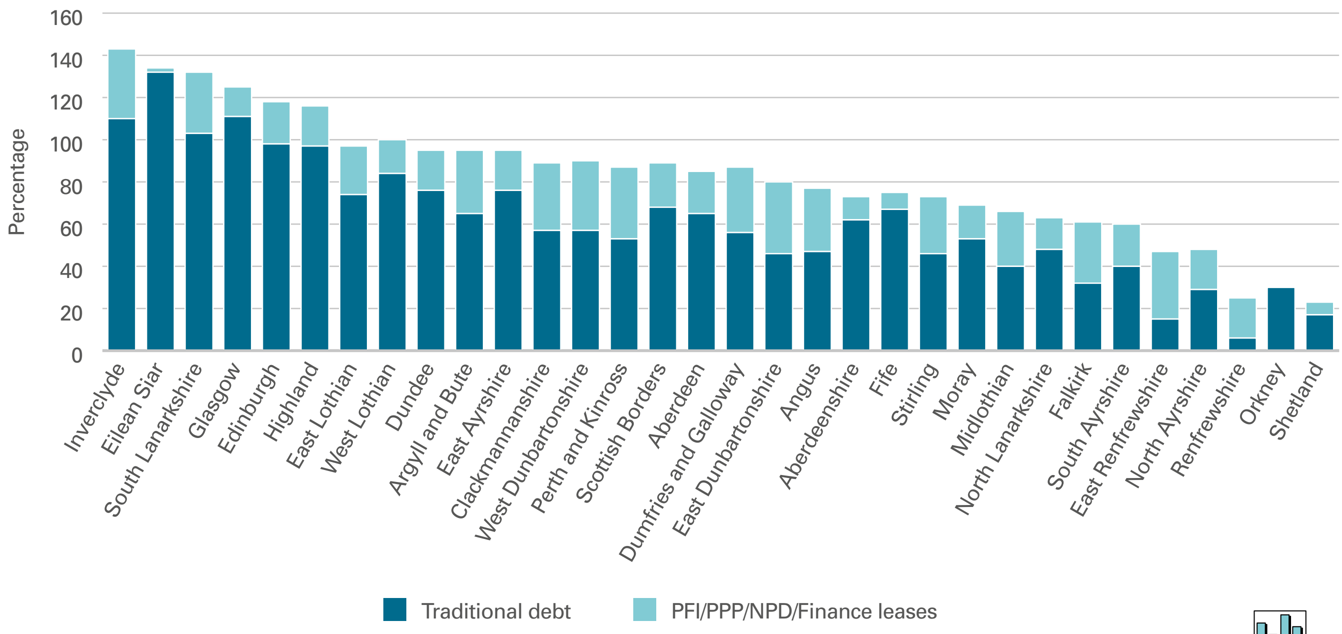


Source: Audit Scotland's analysis of councils' audited accounts 2015/16

Exhibit 11

Councils' General Fund debt, 2015/16

Councils with more debt relating to PFI/PPP/NPD projects and finance leases may face higher costs.



Source: Audit Scotland's analysis of councils' audited accounts 2015/16

59. As well as the debt and debt repayments associated with public/private partnerships, there are also significant revenue costs associated with these projects. Under the terms of the contracts, councils make annual repayments (unitary charges). Around 90 per cent of annual unitary charges relate to schools projects. The charges are made up of three elements: debt repayment, interest costs (both of which are included in debt servicing costs) and an annual service charge (included within the relevant service revenue spending). Councils' annual unitary charge payments are around £500 million per year. As councils' revenue budgets decrease, and the repayments increase in line with inflation, the proportion of revenue budgets being used to service the revenue elements of these contracts will increase.

60. LOBOs offered councils borrowing at lower interest rates than were available for fixed or variable interest loans but, at fixed intervals, a lender can decide to change the interest rate. As such, the long-term cost of servicing LOBOs is uncertain. While councils benefited from lower interest rates offered by LOBOs, their use has attracted public interest owing to the financial risk to which councils are exposed from the potential change in the interest rate.

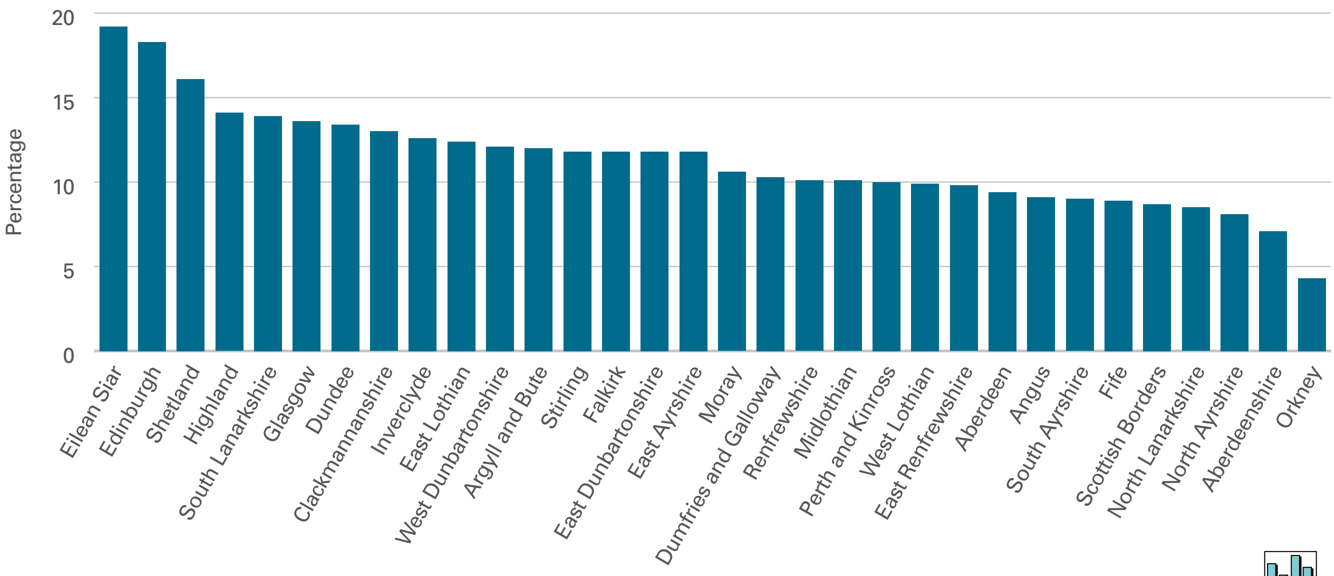
61. The cost of servicing debt (repaying debt and interest costs) will depend on the mix of borrowing a council has, the interest rates secured at the time loans were taken out and the amounts it requires to set aside to repay debt. In 2015/16, this cost councils around £1.5 billion, equivalent to 12 per cent of their available funding from general government revenue grants, NDR, council tax and council housing rents. The percentage of this funding that councils use to service debt varies significantly, from 19.2 per cent in Comhairle nan Eilean Siar to 4.3 per cent in Orkney Islands Council. Aberdeenshire Council, with 7.1 per cent, is the council with the next smallest percentage of income used to service debt (Exhibit 12, page 25).

Do you know how debt repayments affect what money is available to spend on services?

Exhibit 12

The percentage of income used to service debt, 2015/16

Twenty-two councils spend ten per cent or more of their revenue income on servicing their debt.



Source: Councils' audited accounts 2015/16

62. The cost of servicing debt directly impacts upon council spending on services. However, councils can elect to reduce their debt by making extra repayments or by repaying loans early. Councillors must satisfy themselves that any accelerated debt repayment represents an appropriate use of funds, balancing the future savings against the current impact on council services.

Local government pension deficits decreased in 2015/16, mainly owing to estimated changes in long-term liabilities

63. Councils have long-term commitments regarding pensions. They are required to include a pension liability on their balance sheets for the Local Government Pension Scheme (LGPS) but not for the Scottish Teachers Superannuation Scheme (STSS).

64. The size of council pension liabilities varies significantly and depends on factors including:

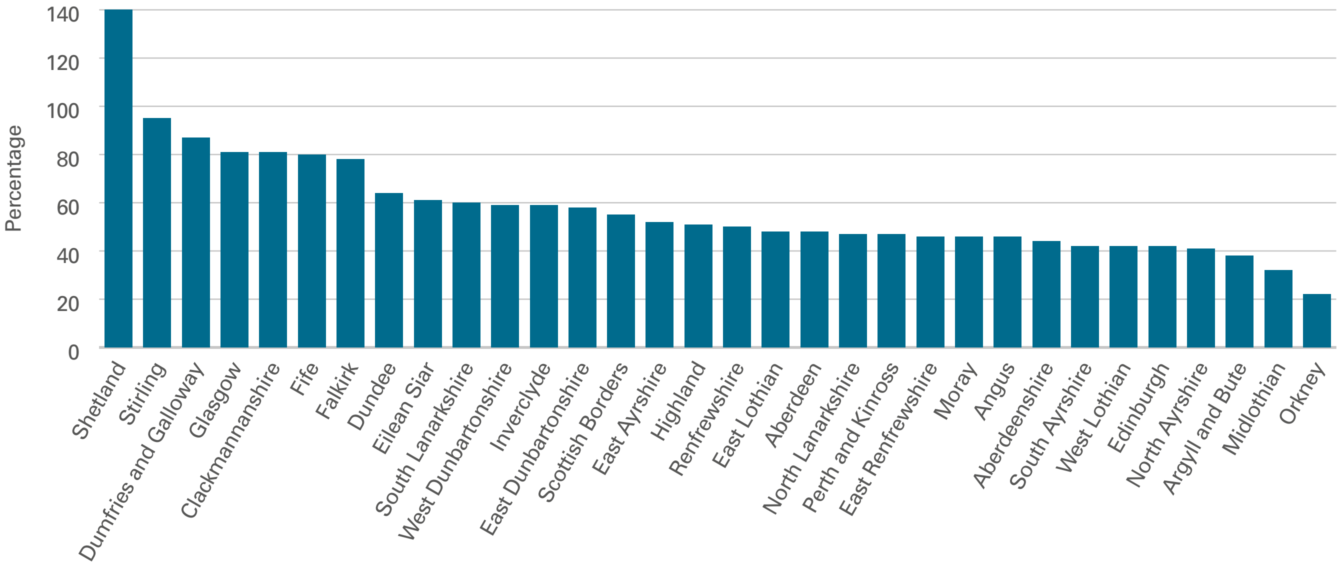
- performance of the pension funds of which they are members
- assumptions made by actuaries of the various funds
- the maturity of the council's membership (average age of pension scheme members)
- decisions made by councils to award discretionary benefits to staff retiring early.

65. Councils with larger pension liabilities will tend to have higher annual costs. The scale of the challenge for each council in meeting these costs can be illustrated by considering their pension liability in relation to their annual income (Exhibit 13, page 26).

Exhibit 13

Council pension liabilities (LGPS and discretionary benefits awarded), 2015/16

Councils' pension liabilities range from around 1.4 to 0.2 times their annual revenue incomes.



Source: Councils' audited accounts 2015/16

66. The LGPS is a funded pension scheme, where employers' and employees' contributions are invested to meet the cost of future benefits. For most councils, the estimated value of employees' benefits exceeds the current value of investments, leading to a net pension deficit. Councils' pension deficits reduced from £10.0 billion to around £7.6 billion during 2015/16 (Exhibit 14, page 27). This reduction is primarily due to actuarial calculations discounting the current value of what the funds will need to pay in the future. The factors contributing to this decrease include assumptions around inflation and salary increases decreasing and the discount rate increasing significantly.

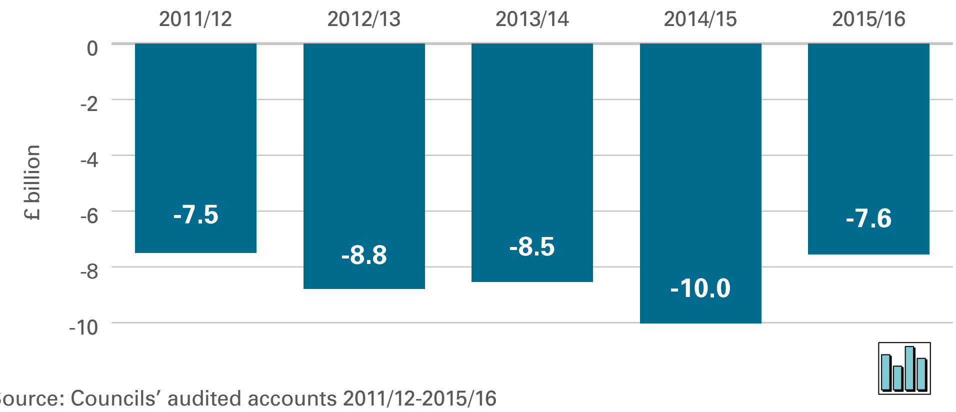
67. With increasing life expectancy, pension contributions have risen to help meet the increased cost of providing pension benefits. Employer contributions in respect of teachers increased by two per cent to 17.2 per cent in October 2016. Councils' contributions to the LGPS are reviewed every three years and will next be reviewed in 2017.

68. In 2015/16, the new 2015 LGPS was introduced. This sees pensions based on average career earnings and the pension retirement age linked to the state retirement age. The scheme includes a cost-sharing mechanism that limits employer costs to ensure it remains affordable. This cap is set by considering the cost associated with active members and will come into force when these reach a maximum of 17.5 per cent for the whole of the scheme (rather than for individual employers).

Exhibit 14

Pension deficits on councils' balance sheets, 2011/12 to 2015/16

Councils' pension deficits decreased in 2015/16, mainly owing to actuarial calculations discounting the value of future commitments.



Source: Councils' audited accounts 2011/12-2015/16

69. Alongside changes to the LGPS, pension auto-enrolment for existing and new employees is now in place. Traditionally there is high pension scheme membership among council staff but there will be additional costs associated with existing and new staff joining the pension scheme.

70. The councils that administer the 11 LGPS funds in Scotland have coped well with these changes. However, the scheme changes, combined with workloads associated with councils reducing their staffing costs through voluntary severance and having to administer added year payments, means there are ongoing administrative pressures.

71. We comment on the 11 LGPS funds, their accounts, governance and performance in a supplement to this report (Supplement 2: Local Government Pension Funds 2015/16).

Good financial planning and management are required to ensure the impact of spending decisions is fully understood

72. Councils are developing their financial strategies and plans in an increasingly complex environment. It is imperative that long-term financial strategies (covering five to ten years) link spending to councils' strategic priorities and that spending plans are considered in this context.

73. The Commission recognises that the Scottish Government providing funding settlement figures for a single year (as in 2016/17 and 2017/18) presents challenges to councils updating medium-term financial plans and ensuring they have long-term financial strategies in place. Although we recognise changes in Scottish Government funding may alter assumptions in both the long and medium terms, the absence of indicative funding should not prevent councils projecting future income and spending, and planning accordingly.

74. Fourteen councils currently have long-term financial strategies in place while 15 others have at least a medium-term financial strategy (three to five years) linking their spending plans to their wider strategic priorities. Three councils (East Renfrewshire, Glasgow City and Highland) do not have a financial strategy covering the medium or long term.

?

Do you have a long-term financial strategy covering five to ten years?

Are there clear links between the financial strategy and the vision for the future?

Is the long-term financial strategy supported by detailed plans covering a minimum of three years?

75. Twenty-nine councils have either medium-or long-term financial plans that set out planned spending, the savings required and how they intend to use reserves to support spending. Two councils have financial plans covering less than three years (Falkirk and Glasgow City). Orkney Islands Council does not have a financial plan but has a medium term financial strategy and a change programme is in place to deliver the medium-term savings identified.

76. There should be very clear links between a council's medium-term financial plan and the annual budgets that councillors approve. Although councillors approve only the budget for a single year, this should be supported by indicative future spending plans that forecast the impact of relevant pressures for councils. Presenting a budget for a single year in isolation does not allow councillors to fully scrutinise the implications of spending decisions.

77. There is variation across councils in how they presented indicative future budgets to councillors alongside their 2016/17 budget. Twenty-three councils presented budgets up to 2018/19; four (Glasgow City, North Ayrshire, South Ayrshire and West Lothian) presented budgets up to 2017/18; and five (Aberdeen City, Angus, Dundee City, Orkney Islands and Renfrewshire) presented budget figures for 2016/17 only.

Councils face significant funding gaps over the next three years

78. We asked auditors to provide information about budgets for 2016/17 and indicative plans for 2017/18 and 2018/19 that were presented to councillors when the 2016/17 budget was being approved (Appendix (page 34)). We focused on the largest elements of councils' budgets: the General Fund revenue budget; the level of approved savings within this budget; and the potential impact of this upon councils' General Fund reserves.

79. Within our analysis we have made several simplifying assumptions. We have only adjusted for savings approved in 2016/17 and further savings will have been identified. When approved these savings will offset future funding gaps. We have also assumed that any identified funding gaps will be met from General Fund reserves when councils' can also use other usable reserves to support spending. Finally, we have assumed that all General Fund reserves are available to close identified funding gaps when a significant proportion of these reserves may have already been allocated.

80. Where councils did not provide information to their auditors about their forecast General Fund budgets in 2017/18 and 2018/19, we made some assumptions from available information. Most councils that provided information up to 2018/19 are forecasting a continued reduction in revenue funding from the Scottish Government but with increases in council tax receipts. They are also forecasting that spending will increase. In particular, they anticipate rising demand on key services through demographic changes and generally assume wage inflation of between 1.0 and 1.5 per cent in both 2017/18 and 2018/19.

81. At the time of setting the 2016/17 budgets, councils anticipated an £87 million in-year shortfall between General Fund revenue income (excluding any use of reserves) and expenditure (after approving savings of £524 million). They planned to bridge the gap by using seven per cent of existing General Fund reserves, reducing them from £1.2 billion to around £1.1 billion by the end of 2016/17.

82. All councils have adequate reserve cover in 2016/17, meaning at the end of the year they will still have General Fund reserves they can use in future. The

Is the long-term financial strategy supported by detailed plans covering a minimum of three years?

Do financial plans set out the implications of different levels of income, spending and activity?

Is there a clear link between the council's revenue plans and the budget information you are asked to approve?

Do financial plans identify the differences between income and expenditure for the next three years?

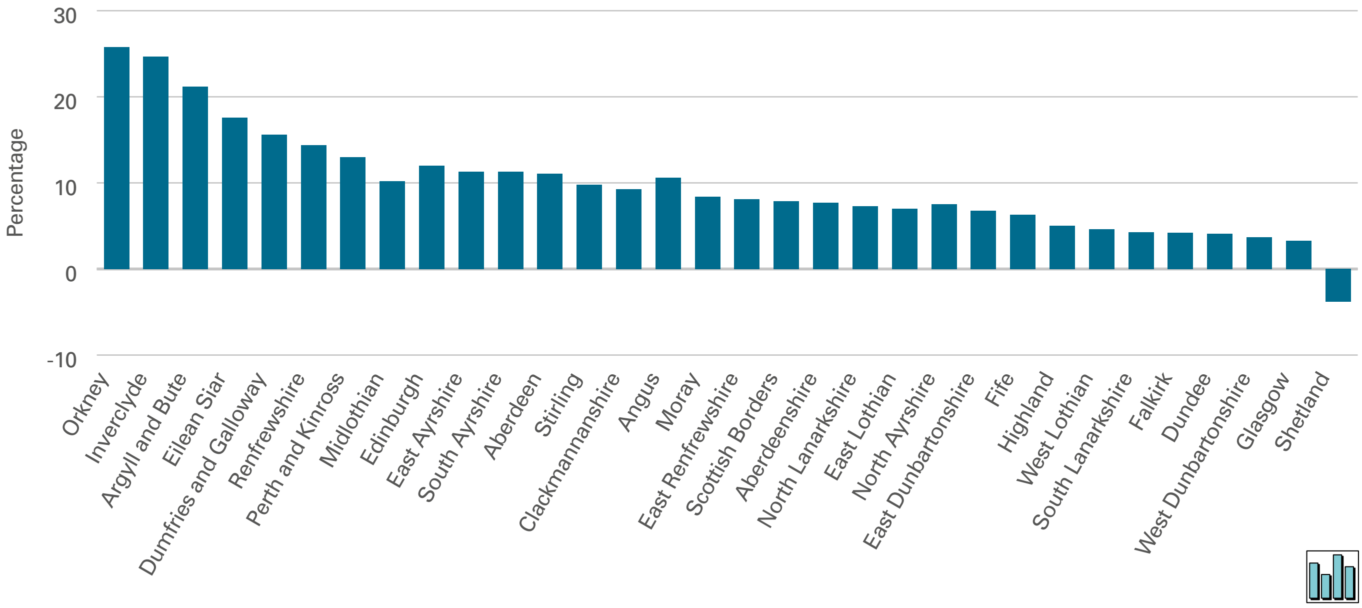
Do you know the actions being taken to close the funding gap?

exception is Shetland Islands Council, but only because of the way it classifies its sizeable reserves as opposed to any financial difficulties or it approving an unbalanced budget. General Fund reserves at the end of 2015/16 were equivalent to nine per cent of councils' overall income from the Scottish Government, NDR, council tax and council housing rents (paragraph 48). Adjusting for reserves that councils planned to use in 2016/17 reduces this to just over eight per cent (Exhibit 15). Councils will also have already allocated a proportion of their available reserves for specific purposes, and therefore what remains available as a contingency to support services will be significantly less.

Exhibit 15

2015/16 General Fund reserves as a percentage of councils' income, adjusted for planned reserve use in 2016/17

The level of reserves held as a percentage of income varies widely among councils.



Note: Shetland Islands Council classifies its reserves differently. This is not an indication of financial difficulties or an unbalanced budget.

Source: Councils' audited accounts 2015/16 and auditor returns

83. Seventeen councils planned to use reserves to balance their budget in 2016/17. This ranged from Moray Council planning to use 28 per cent of reserves to Dumfries and Galloway Council intending to use less than one per cent.

84. Excluding Shetland Islands Council, two councils (Falkirk and South Lanarkshire) forecasted a funding gap in excess of their General Fund reserves in 2017/18. A further 11 councils currently forecast a funding gap in excess of their General Fund reserves in 2018/19. Our analysis therefore indicates that by 2018/19, over a third of councils will face a funding gap that exceeds their General Fund reserves. We recognise that since setting their 2016/17 budgets this position will have changed as councils have continued to identify other savings to address funding gaps.

Exhibit 16

Council budget information for 2016/17, 2017/18 and 2018/19

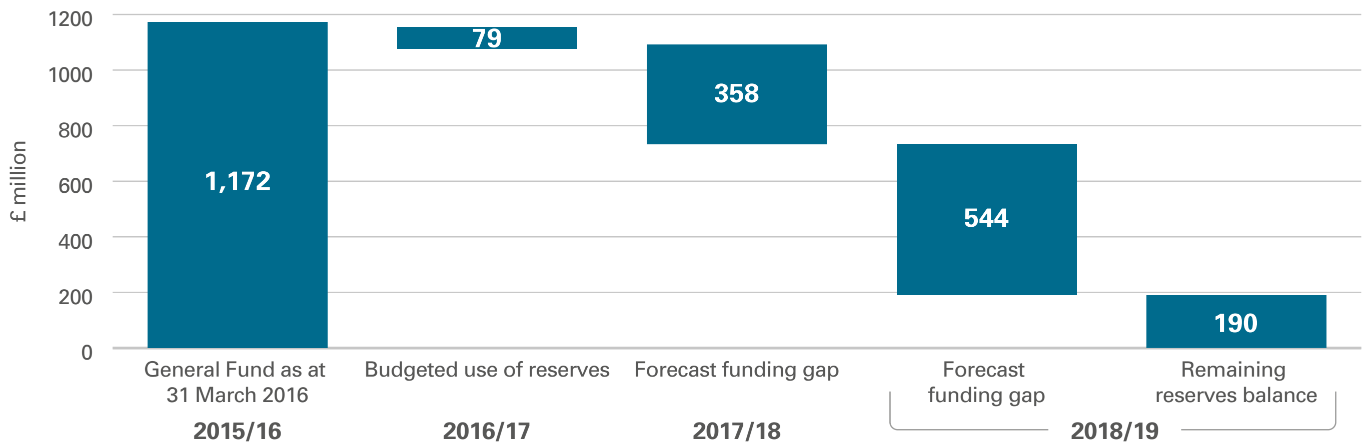
Councils planned to use £79 million of reserves in 2016/17 and forecast significant funding gaps in the following two years. There were significant forecasted funding gaps across the 23 councils that approved their 2016/17 budgets accompanied by indicative plans for the next two years.

	2016/17 (32 councils)	2017/18 (27 councils)	2018/19 (23 councils)
	Budget	**Forecast funding position**	**Forecast funding position**
Income	£11.94 billion	£10.32 billion	£7.85 billion
Expenditure	£12.01 billion	£10.65 billion	£8.25 billion
Budgeted use of reserves/ Forecast funding gap	£79 million	£323 million	£402 million

After applying assumptions derived from completed returns to estimate the position for councils that did not provide information for all three years, we estimated the following position:

	2016/17	2017/18	2018/19
	Budget	**Forecast funding position**	**Forecast funding position**
Income	£11.94 billion	£11.82 billion	£11.72 billion
Expenditure	£12.01 billion	£12.18 billion	£12.27 billion
Budgeted use of reserves/ Forecast funding gap	£79 million	£358 million	£544 million

The potential impact on General Fund reserve balances is illustrated below, assuming that further savings are not approved and funding gaps are met from General Fund reserves. A proportion of these reserves, however, will have already been allocated for other purposes.



Note: Total figures subject to rounding.

Source: Councils' audited accounts 2015/16 and auditor returns

85. The level of General Fund reserves as a percentage of General Fund revenue expenditure would fall from 9.1 per cent at the end of 2016/17 to 1.5 per cent at the end of 2018/19 if all funding gaps had to be met from General Fund reserves. This reflects the need for councils to draw on a significant proportion of reserves if further savings are not identified and approved (Exhibit 16, page 30).

Councils need to appraise all possible options to address forecasted funding gaps

86. Councils need to make significant savings to address forecasted funding gaps without significantly reducing reserves in the next three years to support recurring spending. Councils' ability to make savings will be influenced by a range of factors, including:

- the level of savings they have already made and the extent of their plans for transforming how services are delivered
- national policy commitments for example, around education
- demographic changes increasing demand for services such as social care
- the costs of servicing debt, such as PPP/PFI/NPD revenue payments relating to school buildings.

87. In total, net spending on education, social work and interest payments on external debt equates on average to almost 75 per cent of local government income from general revenue grants, NDR, council tax and council housing rents. The variation across councils is shown in (Exhibit 17, page 32). Councils with a higher proportion of spending on education, social work and debt repayment may face greater challenges in generating their required savings, and potentially face making more significant savings in other areas. This highlights the importance of councils appraising all possible options for delivering their broad range of services. Recent Best Value audits have shown councils relying on incremental savings rather than considering service redesign options. The Commission is of the view that this is neither sufficient nor sustainable given the scale of the challenge facing councils.

Do you know what plans there are to redesign services and deliver savings?

Are savings plans realistic within agreed timescales?

Are all savings clearly identified and categorised as recurring or non-recurring (i.e. one off) savings?

Is the council reliant on non-recurring savings?

Do you know what will happen to the reserves if savings are not made?

Councillors should understand how the plans and budgets they are approving will affect the financial position of their council

88. Throughout this report, we ask councillors and officers to be clear about how their financial strategies, plans and agreed budgets affect their council's financial position. We would expect the following to form part of an assessment of the short and medium-term financial sustainability:

- confirmed and indicative changes in Scottish Government funding to councils
- how to avoid any short-term budget pressures, such as significant overspending in services that could result in the financial position of councils deteriorating
- whether future financial plans provide sufficient spending information to be considered when approving budgets.

Do you feel you have the knowledge and expertise to scrutinise your finances effectively?

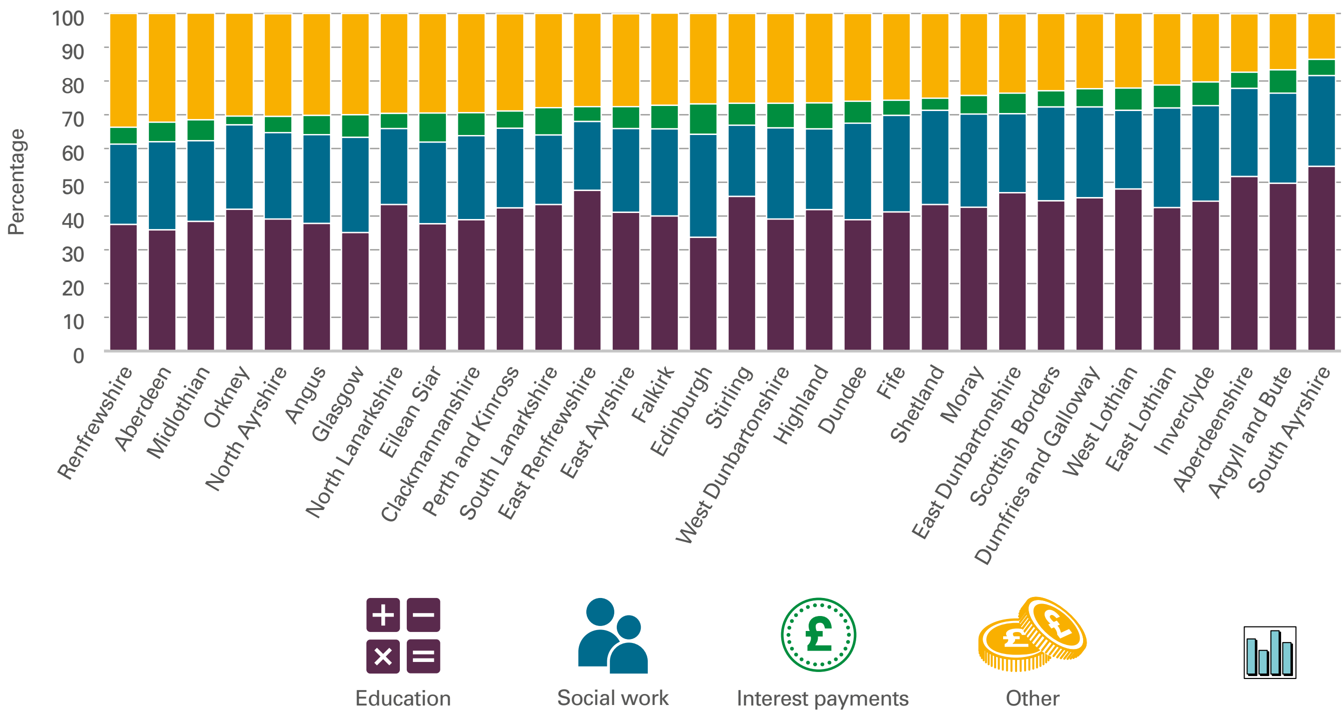
89. In the medium to long term, we would also expect the presence of long-term financial plans, and the assumptions these make, to be taken into account alongside the following factors:

- current reserve levels and how these will be used to support service transformation and delivery while continuing to provide a suitable level of contingency
- expected demand and ongoing cost pressures, including councils' pension obligations, and how these are likely to impact on the services councils need to deliver
- the impact options for investing in assets (such as buildings) will have on both councils' debt and available income, taking into account ongoing servicing costs.

Exhibit 17

Percentage of councils' income spent on education, social work and interest payments, 2015/16

Savings may be more difficult to identify where councils devote more spending to education, social work and paying interest on their external debt.



Notes: 1. Figures are from councils' accounts and include interest payments totalling £814 million, including annual interest costs associated with PFI/PPP/NPD projects. 2. The £1.5 billion debt servicing costs quoted elsewhere are on a funding basis and are not directly comparable for the purposes of this analysis and includes the annual repayments of debt related to PFI/PPP/NPD projects. 3. For the purposes of this analysis net spending on social work services includes money directed to and from Integration Authorities.

Source: Councils' audited accounts 2015/16

Endnotes

1 Most of the increase in service income is due to a £371 million increase in social work and social care income because of how councils have accounted for money being returned to councils from the new Integration Joint Boards (IJBs) which are now responsible for local health and social care.

2 Funding allocations up to 2012/13 have been adjusted to remove funding for police and fire. Responsibility for these services transferred from local to central government in April 2013. From 2013/14, revenue funding includes payments for council tax reduction, replacing council tax benefit previously coming from the UK Government.

3 Councils contribute to Integration Authorities (IAs), and receive money back to provide services on behalf of the IA. Social Work income in the accounts may be inflated depending on how councils have recorded this income received from the IA.

4 *How councils work: an improvement series for councillors and officers – Charging for services: are you getting it right?*, Audit Scotland, October 2013.

5 *Health and social care integration*, Audit Scotland, December 2015; and *Social work in Scotland*, Audit Scotland, September 2016.

6 *Managing early departures from the Scottish public sector*, Audit Scotland, May 2013.

7 *Borrowing and treasury management in councils*, Audit Scotland, March 2015.

Appendix

Methodology of funding gaps analysis

There are challenges in analysing budget information for individual councils to provide a comparative picture across local government. This is mainly due to variations in the way councils prepare and present budget information and the terminology used to define funding gaps. In discussions with local auditors and wider stakeholders we have designed our approach to try and address these challenges.

To allow a more consistent comparison among councils, we have revised how we define a funding gap. Previously the Commission identified a budget shortfall as the difference between income and expenditure, and a funding gap to be any remaining difference once savings approved by councillors have been taken into account (for example, service redesign, approved savings or use of reserves). Feedback from auditors and wider stakeholders suggested these definitions did not accurately reflect how councils refer to a funding gap.

As part of our 2015/16 audit work, we issued an information request to auditors. This focused on councils' General Fund revenue budgets for 2016/17, their budgeted use of reserves and forecasted differences between income and expenditure. We also requested information about approved savings and the main assumptions in respect of the forecasted figures.

In this analysis, we have focused on councils' General Fund budgets and the difference between income (excluding income drawn from reserves) and expenditure (reduced only for approved savings). This allows us to report on the budgeted use of reserves in 2016/17. Forecasted differences between income and expenditure in 2017/18 and 2018/19 then represent the forecasted funding gap, better reflecting the feedback we received about how this term is generally used.

The revised approach provides greater clarity about each council's plans and of the current position of the sector. We asked auditors to provide the level of savings formally approved by councils as part of the 2016/17 budget-setting process. This will include specific savings as well as general efficiencies. While it is expected that councils will continue to identify and approve further savings, the forecast funding gaps for 2017/18 and 2018/19 represent what councils currently forecast they will need to reduce expenditure by or finance from their reserves, ahead of formally approving further savings for these years.

We have applied common assumptions to allow the position of all 32 councils to be reported for years where individual councils did not supply information. Using information supplied by the other councils, we derived and applied:

- a reduction in income of 1.10 per cent and an expenditure increase of 1.16 per cent in 2017/18
- a reduction in income of 0.89 per cent and an expenditure increase of 0.66 per cent in 2018/19.

Local government in Scotland

Financial overview 2015/16

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Local government financial overview 2015/16

Self-assessment tool for councillors

ACCOUNTS COMMISSION

This self-assessment brings together a number of potential questions for councillors related to *Local government in Scotland: Financial overview 2015/16*. It is designed to help councillors identify how well informed they are about each area and to highlight areas where they may wish to ask further questions.

We have also included a high-level guide to the main service expenditure on an accounting basis (as identified in the accounts) and on a funding basis (as used for budgeting purposes).

How well informed am I?		
Questions for councillors to consider	**What do I know?**	**Do I need to ask further questions?**
Annual accounts and financial transparency (paragraphs 10 to 12)		
• Does the management commentary of our annual accounts provide a clear and easily understandable account of the council's finances?		
Funding and income (paragraphs 13 to 25)		
• How do you consider potential changes to income streams and their impact on spending and services as part of medium and long-term planning?		
• Is income from fees and charges clearly reported?		
• What increases in fees and charges are planned and how will these affect our citizens? Do you consider local economic impacts?		

How well informed am I?		
Questions for councillors to consider	**What do I know?**	**Do I need to ask further questions?**
• How do your fees and charges compare to other councils?		
Capital investment (paragraphs 26 to 28)		
• Is your capital investment programme appropriately funded?		
• Do you know what slippage there has been in capital projects and why? Are you assured that appropriate action is being taken?		
Council budgeting (paragraphs 37 to 42)		
• Do service budgets reflect your priorities?		
• Are potential overspends highlighted to you as they occur and before year-end?		
• Are there services where you are consistently over or under spending against your budget? Are such variances adequately explained?		
Council workforces (paragraphs 43 to 45)		
• Are exit packages supported by business cases setting out the total estimated costs and savings?		
Reserves (paragraphs 46 to 49)		
• Do you know what levels of reserves are needed, and why?		
• Do you think reserves are being used effectively?		
Debt (paragraphs 50 to 62)		
• Are there clear links between the capital programme and our treasury management strategy?		

Cont.

How well informed am I?		
Questions for councillors to consider	**What do I know?**	**Do I need to ask further questions?**
• Do you know what the implications that different types of borrowing options have on future revenue budgets?		
• Do you know the split in debt between General Fund and HRA (where applicable)? Is this reported within your management commentary?		
• Do you know how debt repayments affect what money is available to spend on services?		
Financial strategies and plans (paragraphs 72 to 77)		
• Do you have a long-term financial strategy covering five to ten years?		
• Are there clear links between the financial strategy and the vision for the future?		
• Is the long-term financial strategy supported by detailed plans covering a minimum of three years?		
• Do financial plans set out the implications of different levels of income, spending and activity?		
• Is there a clear link between the council's revenue plans and the budget information you are asked to approve?		
Funding gaps, savings and service transformation (paragraphs 78 to 87)		
• Do financial plans identify the differences between income and expenditure for the next three years?		
• Do you know the actions being taken to close the funding gap?		
• Do you know what plans there are to redesign services and deliver savings?		

How well informed am I?		
Questions for councillors to consider	**What do I know?**	**Do I need to ask further questions?**
• Are savings plans realistic within agreed timescales?		
• Are all savings clearly identified and categorised as recurring or non-recurring (ie, one-off) savings?		
• Is the council reliant on non-recurring savings?		
• Do you know what will happen to the reserves if savings are not made?		
Scrutiny considerations (paragraph 88 to 89)		
• Do you feel you have the knowledge and expertise to scrutinise your finances effectively?		

The differences between financial information presented on a funding and an accounting basis

Council accounts show spending on services on an accounting basis which is higher than the amounts council's budget to spend

1. Councils prepare their annual accounts based on International Financial Reporting Standards. These are the same standards followed by large private sector companies and they set out the principles and rules that apply for accounting. The Code of Practice on Local Authority Accounting in the United Kingdom, published annually by CIPFA, interprets how these standards are to be applied to councils.

2. Some spending on services recorded in the accounts does not need to be funded from available resources in the year. Conversely some of the things that councils do need to fund in the year, by statute and regulation, are not required to be treated as spending by companies. Councils set their budgets on the basis of what needs to be funded in the year. This means they budget for the amounts they need to either pay or to set aside.

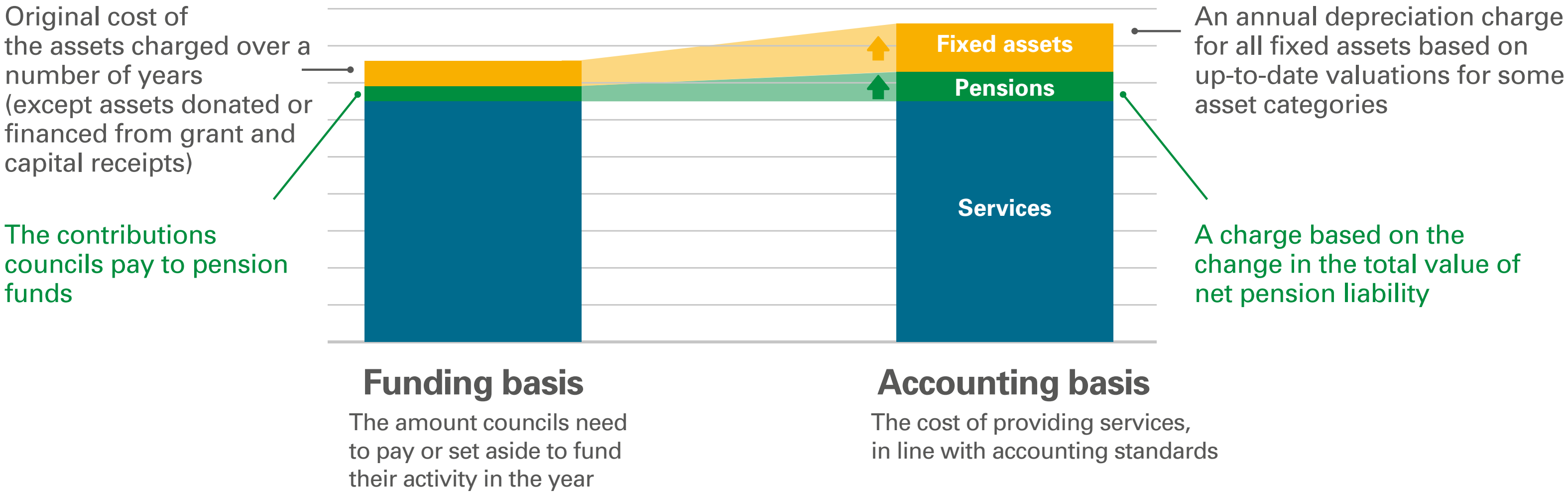
3. Councils' annual accounts include details of the adjustments necessary to get from an accounting basis to a funding basis. However, this complex area is not always well explained. Councils have found it difficult to link the figures in the annual accounts with those in budget reports. The Exhibit 1 (page 5) overleaf shows the main differences between service expenditure on an accounting basis (as identified in the accounts) and on a funding basis (as used for budgeting purposes).

4. From 2016/17, councils will be required to include an expenditure funding analysis showing more clearly the differences between the figures in the accounts and those that officers and members will be more familiar with from budget reports. The Commission welcomes this development as it is hoped this will present figures councillors are more familiar with and therefore make the accounts more useful at a local level and improve scrutiny of the accounts.

Exhibit 1

The main differences between a funding basis and an accounting basis

The main differences are in respect of pensions and fixed assets.



Source: Audit Scotland

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Agenda Items 5 & 6

are contained within

BUDGET PACK

issued separately

NORTH AYRSHIRE COUNCIL

Agenda Item 7

1 March 2017

North Ayrshire Council

Title:	**Treasury Management and Investment Strategy 2017/18**
Purpose:	To seek approval for the proposed Strategy for Treasury Management and Investment activities within the Council for the financial year 2017/18.
Recommendation:	That the Council agrees (i) to approve the Treasury Management and Investment Strategy for 2017/18 as attached at Appendix 1 and (ii) to approve the policy on the repayment of loans fund advances contained within Appendix 3 of the Strategy for implementation in 2016/17.

1. Executive Summary

1.1 The Council is required by regulations issued under the Local Government in Scotland Act 2003 and the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2011) to approve a Treasury Management Strategy before the start of each financial year. In addition, the Consent by Scottish Ministers for the Investment of Money by Scottish Local Authorities Regulation (April 2010) requires the Council to approve an Investment Strategy before the start of each financial year.

1.2 The Treasury Management and Investment Strategy attached to this report complies fully with these requirements and provides;

- a summary of the Council's capital plans;
- outlines the Treasury Management Strategy in relation to borrowing and the impact of council plans on borrowing;
- outlines the Investment Strategy including the instruments available for investments and permitted counterparties.

1.3 The strategy provides key prudential and treasury indicators to 2025/26 which clearly articulate the operational parameters associated with Treasury Management and Investment as well as offering assurance in relation to the affordability and sustainability of capital investment plans.

1.4 A number of key issues are highlighted in this report;

- the continuation of an "under borrowed" position;
- the need to approve a policy on repayment of loans fund advances as outlined in the provisions of the Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016;
- interest rates forecasts continue to show that the UK Bank Rate will remain at 0.25% during 2017-18.

2. Background

2.1 CIPFA defines treasury management as:

'The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.'

2.2 The Local Government Scotland Act 2003 and the Prudential Code requires the Council to approve an annual Treasury Management and Investment Strategy which outlines the Council's strategy in relation to borrowing and the Council's strategy for managing investments giving priority to the security and liquidity of those investments.

2.3 The Treasury Management and Investment Strategy 2017/18 is attached at Appendix 1. The overall objectives of the strategy are as follows:

Borrowing

- to minimise the revenue cost of borrowings;
- to manage the Council's cash flow;
- to manage the borrowing repayment profile;
- to assess interest rates' movements and borrow/invest accordingly;
- to monitor and review the level of variable rate loans held in order to take advantage of interest rate movements; and
- to identify and evaluate opportunities for debt rescheduling.

Investments

- to protect capital security of the invested funds;
- to obtain the best market return whilst recognising that security and liquidity are key priorities;
- to specify criteria for identifying creditworthy counterparties; and
- to specify the types of investments permitted and appropriate limits for each.

2.4 The strategy provides detailed key prudential and treasury indicators over a 9 year period which clearly articulate the operational parameters associated with Treasury Management and Investment as well as offering assurances in relation to the affordability and sustainability of capital investment plans;

- the General Services capital plan to 2025/26 and
- the one-year programme for the Housing Revenue Account, with investment requirements for future years outlined within the HRA 30-year Business Plan.

and links with the key objectives of the Prudential Code that capital investment programmes should be set at a level that delivers the Council’s strategic priorities and is affordable in terms of the impact of the resultant debt repayments on revenue budgets.

2.5 The Treasury Management and Investment Strategy includes prudential indicators which are critical in assessing the affordability of capital investment plans and their impact on the Council's overall finances. The two indicators which are used to demonstrate affordability are:

- The ratio of financing costs to the net revenue stream (for both General Fund and Housing Revenue Account)
- The incremental impact of capital investment decisions on council tax and rent levels

2.6 There are a number of other key indicators designed to ensure that the Council operates within well-defined limits. The strategy, therefore, specifies :-

- limits we do not expect external debt to exceed;
- appropriate levels of fixed rate borrowing versus variable rate borrowing;

- upper and lower limits on the maturity of the debt portfolio, which reduces the Council's exposure to large sums falling due for refinancing at any one time;
- limits on investments placed for more than 364 days.

2.7 The Council expects to hold an 'under-borrowed' position at 31 March 2017. This means that the capital borrowing need (the Capital Financing Requirement) has not been fully funded by debt, due to the level of the Council's internal funds. The use of internal funds instead of borrowing is recommended at this time due to the low level of investment rates in the market and the saving which can be made in borrowing costs. This under-borrowed position will decline through time as internal funds reduce and borrowing is required to be undertaken to replace internal funding.

2.8 In July 2016 Scottish Government confirmed the new Loans Fund accounting arrangements under the provisions of The Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016, which apply retrospectively from 1 April 2016. This Regulation requires the Council to outline its policy on the repayment of loans fund advances. The Loans Fund Advance is effectively the repayment of the ‘principal’ linked to the capital expenditure which is required to be funded from borrowing. The broad aim of prudent repayment is to ensure that the Authority’s unfinanced capital expenditure is financed over the period of years which that expenditure is expected to provide a benefit and that each year’s repayment amount is reasonably commensurate with the period and pattern of the benefits. The Scottish Government statutory guidance recommends a number of options for calculating prudent repayments. The Council is recommending the continued use of the current statutory method which repays debt on an annuity basis based on asset lives which are specified in national guidance. An annuity is similar to the repayment of a mortgage where principal payments are lower at the start of the mortgage and build up to deliver full repayment over the term of the mortgage. The policy is outlined in full in Appendix 3 of the strategy and will come into effect during 2016/17.

3. Proposals

3.1 That the Council agrees (i) to approve the Treasury Management and Investment Strategy for 2017/18 as attached at Appendix 1 and (ii) to approve the policy on the repayment of loans fund advances contained within Appendix 3 of the Strategy for implementation in 2016/17.

4. Implications

Financial:	Financial implications are detailed in the report attached at Appendix 1.
Human Resources:	None
Legal:	The Local Government in Scotland Act 2003 and supporting regulations require the Council to set out its Treasury Strategy for borrowing and to prepare an Annual Investment Strategy. The Local Authority (Capital Financing and Accounting) (Scotland) Regulations 2016 require the Council to set a policy for the repayment of loans fund advances.
Equality:	None
Environmental & Sustainability:	None
Key Priorities:	The Treasury Management Strategy aligns with the Council Plan by contributing to “a sound financial position” and “making the best use of all resources” as referred to under the banner of Underpinning our Priorities.
Community Benefits:	None

5. Consultation

5.1 The Council's treasury advisors, Arlingclose Ltd, were consulted in the preparation of the Strategy.

LAURA FRIEL
Executive Director (Finance and Corporate Support)

Reference : None
For further information please contact Margaret Hogg, Head of Finance on 01294 324560

Background Papers
None

APPENDIX

North Ayrshire Council
Comhairle Siorrachd Àir a Tuath

Treasury Management and Investment Strategy

2017/18

PublicFinance INNOVATION AWARDS 2017
FINALIST

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1 Purpose

The Council is required by regulations issued under the Local Government in Scotland Act 2003 and the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2011) to approve a Treasury Management Strategy before the start of each financial year.

In addition, the Consent by Scottish Ministers for the Investment of Money by Scottish Local Authorities which came into force in April 2010 requires the Authority to approve an Investment Strategy before the start of each financial year.

This strategy meets these requirements fully.

Three main reports on Treasury Management activity are presented to Members each year, incorporating a variety of policies, estimates and actuals. These are:

- **Annual Treasury Management and Investment Strategy** (this report), which is submitted to full Council before the start of each financial year.
- **Mid-Year Treasury Management and Investment Report**, submitted to Cabinet as soon as possible following 30 September each year.
- **Annual Treasury Management and Investment Report**, submitted to full Council annually by the 30 June following the end of each financial year.

Responsibilities
Regulations place responsibility on Members for the review and scrutiny of treasury management policy and activities. The following Scheme of Delegation has been adopted by the Council:

Full Council
- to receive and review reports on treasury management policies, practices and activities;
- to approve annual Treasury Strategy.

Cabinet
- to approve amendments to the treasury management policy statement and treasury management practices;
- to approve the division of responsibilities;
- to receive and review regular monitoring reports and act on recommendations.

Section 95 Officer
The Executive Director (Finance & Corporate Support) is the Council's S95 officer and is required:

- to recommend treasury management policies / practices, review these regularly and monitor compliance;
- to submit regular treasury management updates;
- to receive and review management information;
- to review the performance of the treasury management function;
- to ensure the adequacy of treasury management resources and skills and the effective division of responsibilities within the treasury management function; and
- to approve the appointment of external service providers.

External Treasury Advisers
The Council recognises that there is value in employing external providers of treasury management services in order to access specialist skills and resources.

However it is recognised that responsibility for treasury management decisions remains with the Council at all times and officers will ensure that undue reliance is not placed upon external advice.

The Council's current external treasury management advisors are Arlingclose Limited. The contract started on 1 January 2016 and is in place for an initial 3 year period. The Council will ensure that the terms of their appointment and the methods by which their value is assessed are properly agreed, documented and subject to regular review.

2 Executive Summary

The treasury management function ensures that the Council's funds are managed in accordance with the the relevant professional codes, so that sufficient cash is available to meet service activity. This involves both the organisation of the cashflow and, where capital plans require, the organisation of approporiate borrowing facilities.

CIPFA defines treasury management as:

> *"The management of the local authority's investments and cashflows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."*

This document outlines the Council's Annual Treasury Management Strategy and Annual Investment Strategy providing:-

- a summary of the Council's capital plans
- an outline of the treasury management strategy in relation to borrowing and the impact of capital plans on this borrowing
- an outline of the investment strategy including the type of instruments available for investment and our permitted counterparties

Key prudential and treasury indicators are provided throughout this strategy which clearly articulate the operational parameters in relation to Treasury Management and Investment as well as provide assurances in relation to the affordability and sustainability of capital investment plans. Table 1 below contains the key prudential and treasury indicators within the report.

TABLE 1

Prudential and Treasury Indicators	2016/17 Probable Outturn £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
Capital Expenditure:				
General Services	55.172	35.899	30.514	44.225
HRA	21.574	53.105	20.656	46.864
Total	**76.746**	**89.004**	**51.170**	**91.089**
Capital Financing Requirement (CFR):				
General Services	182.050	174.039	174.887	188.812
HRA	117.080	140.288	139.478	153.498
Total	**299.130**	**314.327**	**314.364**	**342.310**
Gross Borrowing	262.979	303.741	314.364	342.310
Operational Boundary	331.243	329.171	333.217	360.158
Authorised Limit	364.367	362.088	366.539	396.174
Investments:				
Longer than 1 year	-	-	-	-
Under 1 year	10.000	10.000	10.000	10.000
Total	**10.000**	**10.000**	**10.000**	**10.000**

A brief explanation of this is provided below with more detailed information provided in the body of the report.

Capital Expenditure for General Fund reflects the capital investment programme for 2017/18 to 2025/26 and HRA reflects the capital investment programme for 2017/18 and longer term reflects the capital investment plans reflected in the latest business plan. To ensure the financial consequences of the new programme are fully transparent, all relevant indicators have been projected to 2025/26 and these can be found in Appendix 1.

The **Capital Financing Requirement (CFR)** is the underlying borrowing requirements of the Council.

Gross Borrowing reflects the actual borrowing which has been undertaken. This is projected to be lower than the CFR as the Council continues with its strategy to use internal funds. It is currently forecast that this will reduce over time with the use of internal funds forecast to end in 2018-19.

The **Operational Boundary** is the maximum we would anticipate borrowing to fund the current year capital programme building in flexibility for the timing of the different funding streams and principal repayments

The **Authorised Limits** is set at 10% above the Operational Boundary to give some flexibility to raise funds for future year capital investment.

Affordability of borrowing is measured by a number of indicators, including the incremental impact of:

- Borrowing on the Council Tax and Housing Rent; and
- Percentage of financial costs relative to the net revenue stream of the General Fund and Housing Revenue Account.

Full details of these can be found on page 8 to 9.

The **average investment** rate set for 2017/18 is 0.3% and is reflective of the Council's appetite for risk, the short term nature of investments linked to cash flow projections and the permitted instruments and counterparties selected.

Other prudential and treasury indicators and supporting information can be found in the main body of this report.

Regulatory Change
In July 2016 Scottish Government confirmed the new Loans Fund accounting arrangements under the provisions of The Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016, which apply retrospectively from 1 April 2016. This Regulation requires the Council to outline its policy on the repayment of loans fund advances and this is outlined in Appendix 4.

3 Capital and Prudential Indicators 2017/18 – 2019/20

In exercising its power to borrow, the Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016 require the Authority to have regard to the Chartered Institute of Public Finance and Accountancy's Prudential Code for Capital Finance in Local Authorities (the Prudential Code). The Prudential Code is a framework to ensure Councils demonstrate effective control over levels of, and decisions relating to, capital investment activity, including borrowing. The Treasury indicators are used to ensure that risk is managed and controlled effectively. Together the Prudential and Treasury Indicators consider the affordability and impact of capital expenditure decisions and set out the Council's overall capital framework.

(a) Capital Expenditure and Financing

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously and those forming part of the 2017/18 budget setting.

The 2017/18 budget reflects the Capital investment programme for General Services approved in 2017/18 and updated investment plans for the Housing Revenue Account (HRA) for 2017/18. All projects within the Capital programme are linked to the Council's key strategic priorities. To ensure the financial consequences of the new programme are fully transparent, all relevant indicators have been projected to 2025/26 and these can be found in Appendix 1. The information below summarises capital expenditure plans and how they are being financed by capital or revenue resources. Borrowing is the difference between the total capital programme and other funding sources.

Estimates of Capital Expenditure and Income	2016/17 Probable Outturn £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
General Services Capital expenditure	55.172	35.899	30.514	44.225
Funded by:				
Borrowing	21.503	1.550	10.722	23.858
Receipts / Grants	25.327	33.826	17.364	19.855
Funded from Revenue	2.431	0.073	0.455	0.512
Funded from Reserves	5.911	0.450	1.973	-
Total	**55.172**	**35.899**	**30.514**	**44.225**
HRA Capital expenditure	21.574	53.105	20.656	46.864
Funded by:				
Borrowing	-	25.517	1.854	17.034
Receipts / Grants	8.446	11.158	3.306	13.509
Funded from Revenue	12.820	15.346	15.223	15.205
Funded from Reserves	0.308	1.084	0.273	1.116
Total	**21.574**	**53.105**	**20.656**	**46.864**

(b) The Council's Overall Borrowing Need (the Capital Financing Requirement)

This indicator outlines the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure, which has not been paid from either a capital or a revenue resource and therefore needs to be funded from borrowing. It is essentially a measure of the Council's underlying borrowing need.

Part of the Council's treasury activity is to meet the funding requirements for this borrowing need. The treasury management section organises the Council's cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Government, through the Public Works Loan Board [PWLB] or the money markets), or utilising temporary cash resources within the Council.

The Council's underlying borrowing need (CFR) is not allowed to rise indefinitely. The Council is required to make an annual revenue charge, called the Loan Fund Principal Repayment. This is effectively a repayment of the borrowing need and it is charged to revenue over the life of the asset. This charge reduces the CFR each year. This differs from the treasury management arrangements, which ensure that cash is available to meet the payment of capital commitments on an ongoing basis. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

The total CFR can also be reduced by:

- the application of additional capital financing resources (such as unapplied capital receipts); or
- increasing the annual revenue charge

The Council's CFR is shown below, and is a key prudential indicator. The opening balances include the PPP/NPD scheme on the balance sheet, which increases the Council's borrowing need, this is shown to give a complete picture of the Council's debt, however no borrowing is actually required against these schemes as a borrowing facility is included in the contract and as such, this is removed from the bottom line. For the first time this includes the NPD Scheme linked to Largs Campus, which will commence repayment in 2017/18. The CFR is forecast to rise over the next few years, as capital expenditure financed by borrowing increases.

Capital Financing Requirement (CFR)	**2016/17 Probable Outturn £m**	**2017/18 Estimate £m**	**2018/19 Estimate £m**	**2019/20 Estimate £m**
General Services	247.393	281.825	280.055	291.443
HRA	117.080	140.288	139.478	153.498
Sub-total	**364.473**	**422.113**	**419.532**	**444.941**
Less PPP/NPD long-term liability	(65.343)	(107.786)	(105.168)	(102.631)
Sub-total	**299.130**	**314.327**	**314.364**	**342.310**
Movement in CFR				
General Services	34.595	(8.012)	0.848	13.925
HRA	0.296	23.208	(0.811)	14.020
Annual Change	**34.891**	**15.197**	**0.037**	**27.946**

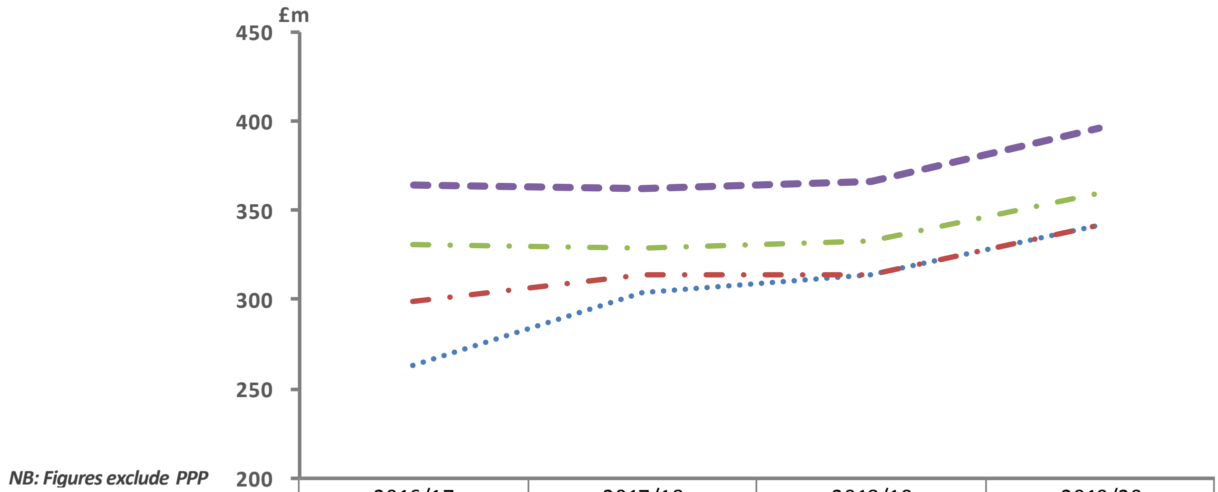
(c) Limits to borrowing activity

The Operational Boundary
The operational boundary is the expected maximum borrowing position of the Council during the year, taking account of the timing of various funding streams and the recharge of principal repayments from the revenue account. Periods where the actual position varies from the boundary are acceptable subject to the authorised limit not being breached.

The Authorised Limit
The authorised limit represents a limit beyond which external debt is prohibited. This limit is set by Council and can only be revised by Cabinet approval. It reflects the level of external borrowing which, while not desirable, could be afforded in the short term, but is not sustainable in the longer. The current limit is set at 10% above the Operational Boundary.

The graph below shows the projected levels of the Operational Boundary and Authorised Limit, compared with the Council's CFR and gross debt position. CIPFA's Prudential Code for Capital Finance in Local Authority's recommends that the Council's total debt should not exceed the highest forecast CFR over the next three year. This provides Councils with some flexibility to borrow to meet future capital investment requirements but provides a balance to ensure debt is not held for long periods of time without an underlying need to fund capital investment. The graph below confirms that the Council expects to comply with this recommendation.

Borrowing Projection v Approved Limits



	2016/17	2017/18	2018/19	2019/20
Gross Debt at 31 March	262.979	303.741	314.364	342.310
CFR (Borrowing need)	299.130	314.327	314.364	342.310
Operational Boundary	331.243	329.171	333.217	360.158
Authorised Limit	364.367	362.088	366.539	396.174

(d) Affordability Prudential Indicators

These Prudential Indicators assess the affordability of capital investment plans and provide an indication of the impact of capital investment plans on the Council's overall finances. The cost impact of borrowing decisions are reflected in the Council's budget as loan charges. These have been projected over the next 9 years in line with the capital plan and will be used to update the Council's Long Term Financial Plan.

Actual and estimates of the ratio of financing costs to net revenue stream.
This indicator identifies the trend in the cost of capital (borrowing and other long-term liabilities net of investment income) against the net revenue stream. The estimates of financing costs include current commitments and those arising from the capital programme. The HRA costs are aligned with the 30-year business plan.

Ratio of financing costs to net revenue stream	2016/17 Probable Outturn £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
General Services	5.2%	5.7%	6.1%	6.1%
HRA	17.7%	16.6%	18.0%	19.2%

Incremental impact of capital investment decisions on the band D Council Tax.
This indicator identifies the trend in the cost of changes in the General Services capital programme compared to the Council's approved commitments, expressed as a discrete impact on Council Tax and reflects the incremental change compared to the year before. Any such costs are indicative, and do not reflect actual increases in the Council Tax.

Incremental impact of capital investment decisions on housing rent levels.
Similar to the council tax calculation, this indicator identifies the trend in the cost of changes in the housing capital programme compared to the Council's existing commitments, expressed as a discrete impact on weekly rent levels. The costs are, however, only indicative and do not reflect actual increases in the housing rents which are set in accordance with the 30-year Business Plan.

	2016/17 Probable Outturn	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Incremental impact of capital investment decisions on Council Tax	£0.00	£0.00	£0.00	£0.00
Incremental impact of capital investment decisions on housing rent levels	£0.00	£0.19	£0.20	£0.30

4 Treasury Management Strategy

The treasury management function ensures that the Council's funds are managed in accordance with the relevant professional codes, so that sufficient cash is available to meet service activity. This involves both the organisation of the cashflow and, where capital plans require, the organisation of approporiate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

The primary objectives of the Council's borrowing strategy is to minimise the revenue impact of borrowing and to effectively manage the repayment profile of the debt.

The treasury strategy aligns with the Council Plan by contributing to "a sound financial position" and "making the best use of all resources" as referred to under the banner of "Underpinning our Priorities".

Interest rate forecast

Interest rate forecasts are key to forecasting the costs of future borrowing. The Council's treasury advisor, Arlingclose, projects that the UK Bank Rate will remain at 0.25% during 2017/18. This is shown in the graph below alongside an assessment of PWLB borrowing rates to December 2019.

Current portfolio position

The Council's treasury portfolio position at 31 March 2016, with forward projections, are summarised below. The table shows the actual external debt against the underlying capital borrowing need (the CFR), highlighting any over or under borrowing. Both the external debt and CFR exclude the Council's liabilities in respect of the PPP/NPD schemes.

Current Portfolio Position (excluding PPP/NPD)	2016/17 Probable Outturn £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
Gross Debt at 31 March	262.979	303.741	314.364	342.310
CFR	299.130	314.327	314.364	342.310
(Under)/Over Borrowed Position	**(36.151)**	**(10.586)**	**-**	**-**

Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council's gross debt should not, except in the short term, exceed the total of the CFR. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

The Council is currently under-borrowed. This means that the capital borrowing need (the CFR), has not been fully funded with loan debt because the cash supporting the Council's internal balances and cashflow is being used as a temporary measure. This strategy is currently prudent, as investment returns are low and counterparty risk is high. Where possible, the Council will continue to use internal funds, but will balance this strategy against movements in interest rates as outlined above.

Against this background and the risks within the economic forecast, caution will be adopted within 2017/18 treasury operations. The Executive Director of Finance and Corporate Support will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances. For example:

- if it is felt that there is a significant risk of a sharp fall in long and short-term rates, then long-term borrowings will be postponed and potential rescheduling from fixed rate funding into short-term borrowing will be considered.

- if it is felt that there is a significant risk of a much sharper rise in long and short-term rates than that currently forecast, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates are still lower than they are expected to be in the next few years.

Any such decisions will be reported to the Cabinet as part of the mid-year report. A summary of treasury risks and mitigating controls can be found at Appendix 2.

Controls on borrowing activity

The purpose of these controls is to manage the risk and impact of any adverse movement in interest rates. However, if they are set to be too restrictive they will impair any opportunities to reduce costs / improve performance. The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments;
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates.

	2016/17 Probable Outturn £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
Limits on fixed interest rates based on net debt	311.267	302.088	306.539	336.174
Limits on variable interest rates based on net debt	53.100	60.000	60.000	60.000

- Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing; both upper and lower limits are required.

Maturity Profile of Borrowing	2016/17 Probable Outturn £m	2016/17 Probable Outturn %	Lower Limit %	Upper Limit %
Under 12 months	41.000	16%	0%	25%
12 months and within 24 months	-	0%	0%	25%
24 months and within 5 years	26.938	10%	0%	50%
5 years and within 10 years	1.831	1%	0%	75%
10 years and above	193.210	73%	25%	90%
Total Borrowing	**262.979**	**100%**		

Policy on borrowing in advance of need
The Council will not borrow more than, or in advance of, its needs purely to profit from the investment of the extra sum borrowed. Any decision to borrow in advance will be within forward approved CFR estimates and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

Risks associated with any advance borrowing activity will be subject to appraisal and subsequent reporting in either the mid-year or annual treasury report.

Debt rescheduling
As short-term borrowing rates are considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long-term to short-term debt. However, these savings will need to be considered in the light of the current treasury position and the cost of any premiums incurred on early debt repayment.

Potential reasons that any debt rescheduling would be undertaken include:

- the generation of cash savings and / or discounted cashflow savings;
- helping to fulfil the treasury strategy;
- the enhancement of the portfolio balance (amend the maturity profile and / or risk).

All debt rescheduling proposals will be reported to Cabinet / full Council as part of the annual or mid-year report.

Borrowing Sources
Approved sources of long-term and short-term borrowing are:

- Public Works Loan Board (PWLB) and any successor body
- Any institution approved for investments (see Appendix 3)
- Any other bank or buiding society authorised to operate in the UK
- UK public and private sector pension fund (except Strathclyde Pension Fund)
- Capital market bond investors
- Special purpose companies created to enable local authority bond issues

In addition, capital finance can be raised by the following methods that are not borrowing, but are classed as other debt liabilities:

- Operating and finance leases
- Hire purchase
- Private Finance Initiatives
- Sale and leaseback arrangements

North Ayrshire Council has previously raised the majority of its long-term borrowing from the PWLB, but continues to investigate other sources of finance that may be available with terms that are more favourable.

Policy on Use of Financial Derivatives
A financial derivative is a contract, which derives its value from the performance of an underlying entity. They are used for a number of purposes, including insuring against price movements. In the absence of any explicit legal power to do so, the Authority will not use standalone financial derivatives (such as swaps, forwards, future and options). Derivatives embedded into loans and investments, including pooled funds and forward starting transactions, may be used, and the risks that they present will be managed in line with the overall treasury risk management strategy.

Policy on Repayment of Loans Fund Advances
In July 2016 Scottish Government confirmed the new Loans Fund accounting arrangements under the provisions of The Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016, which apply retrospectively from 1 April 2016. This Regulation requires the Council to outline its policy on the repayment of loans fund advances. The Loans Fund Advance is effectively the repayment of the 'principal' linked to the capital expenditure which is required to be funded from borrowing. The broad aim of prudent repayment is to ensure that the Authority's unfinanced capital expenditure is financed over the period of years which that expenditure is expected to provide a benefit and that each year's repayment amount is reasonably commensurate with the period and pattern of the benefits. The Scottish Government statutory guidance recommends a number of options for calculating prudent repayments. The Council is recommending the continued use of the current statutory method which repays debt on an annuity basis based on asset lives which are specified in national guidance. An annuity is similar to the repayment of a mortgage where principal payments are lower at the start of the mortgage and build up to deliver full repayment over the term of the mortgage. The policy is outlined in full in Appendix 4 of the strategy and will come into effect during 2016/17.

5 Investment Strategy

The Council's investment strategy has regard to the Local Government Investment (Scotland) Regulations (and accompanying finance circular) and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and of receiving unacceptably low investment income. Where balances are expected to be invested for more than one year, the Authority will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, without increasing additional risk, in order to maintain the spending power of the sum investment.

The aim of the Investment Strategy is to provide security of investment and minimisation of risk by generating a list of high creditworthy counterparties which will enable diversification. Investment instruments identified for use in the financial year along with their associated risks and controls can be found in Appendix 3.

Counterparty limits are set through the Council's Treasury Management Practices. The maximum that will be lent to any one organisation (other than the UK Government) will be £10 million. A group of banks under the same ownership will be treated as a single organisation for limit purposes.

The Council uses purpose-built cash flow forecasting software to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Council's revenue budget and cash flow forecast.

Given the risk of bail in which is detailed below and continued low returns from short-term unsecured bank investments, the Council will take opportunities, as cash flows permit, to further diversify into more secure asset classes during 2017/18. This is especially the case for longer-term investment. This diversification will mitigate further risks associated with investments.

Current Portfolio Position

Current Portfolio Position	2016/17 Probable Outturn £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
Investments at 31 March	10.000	10.000	10.000	10.000
Net Debt at 31 March	**252.979**	**293.741**	**304.150**	**331.878**

If the UK enters into a recession in 2017/18, there is a small chance that Bank of England could set its Bank rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. This situation already exists in many other European countries. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested. The Council will mitigate this by minimising the cash balances held for investment through strong cash flow management.

Creditworthiness policy

In accordance with the above and in order to minimise risk, the Council has clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on its lending list. The Council uses Arlingclose's Approved Counterparties List (see Appendix 5) which takes full account of the ratings, outlooks and watches published by all three ratings agencies, with ratings monitored on a real time basis and knowledge of any changes notified electronically, once published by the agencies.

Investment decisions are made by reference to the lowest published long-term credit rating from Standard & Poor's, Fitch and Moody's. The Council considers high credit quality organisations and investments as those having a credit rating of A- or higher that are domiciled in the UK, or in a foreign country with a sovereign rating of AA+ or higher. For money market funds that are more diversified, "high credit quality" is defined as those having a credit rating of A- or higher.

All credit ratings are monitored on a weekly basis by the Head of Finance who is alerted to changes in ratings of all three agencies through Arlingclose's weekly updates. Where a downgrade results in the counterparty or investment scheme no longer meeting the Council's minimum criteria, any investment will be withdrawn immediately, where breakage costs are not excessive.

It should be noted that where deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In such circumstances, the Council will restrict its investment activity to those organisations of higher credit quality and will reduce the maximum duration of its investments to maintain the required level of security. If this leads to a restricted number of organisations, funds will be placed with the UK government, via the Debt Management Office, treasury bills, or investment in other local authorities.

The Council recognise that credit ratings are good, but not comprehensive, indicators of investment default. Full regard is therefore given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on government support and reports in the financial press. No investment will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

Bail-in Risk

Since the financial crisis, global authorities have embarked on a wide ranging review of the banking sector to ensure that the cost to the public purse of any future crises is contained. One of the most significant changes has arisen from the Financial Services (Banking Reform) Act 2013 which added the bail-in of certain unsecured creditors to the Special Resolution Regime (SRR) granted to the Bank of England under the Banking Act 2009. Bail-in is the opposite of bail-out and requires certain creditors to bail in funds from existing investments if a bank requires it to remain financial sustainable.

Local authority deposits in banks are unsecured and because other previously unsecure creditors have become preferred under EU Directives it means that the risks associated with local authority unsecured investments in banks have risen. Bail-in risk does not discriminate and applies to RBS and Lloyds Banks even where they retain an albeit reducing level of UK Government ownership.

There are a number of steps that can be taken to mitigate against bail-in risk. Clearly, investing with high quality and credit worthy institutions continues to be the best solution and the identification of these institutions remains a key objective of the investment strategy. Ensuring diversification of investment counterparties is also an effective risk management approach and needs to be reflected in investment counterparty limits. But the best way to manage the onset of bail-in risk is to invest in ways that avoid it altogether and this can be achieved by not investing in banks and building societies on an unsecured basis but on a secured basis where any exposure to a bank is specifically exempt from bail-in risk altogether; the Council is working with our advisers to progress this route, as cash flows permit.

Investment Strategy and Permitted Investments

The Investment Regulations (Code on the Investment of Money by Local Authorities) require the Council to approve all types of investments to be used and to set appropriate limits for the amount that can be held in each investment type. In determining its permitted investments the Council must identify the treasury risks associated with each type of instrument and the controls put in place to limit risk on each investment type. Full details can be found in Appendix 3.

Investment returns expectations

Bank Rate is forecast to remain unchanged at 0.25% until 2019. Bank Rate forecasts for financial year ends (March) are:

- 2017/18 0.25%
- 2018/19 0.25%
- 2019/20 0.25%

Estimated budgeted investment earnings rates for returns on investments placed for periods up to 100 days during each financial year for the next three years are as follows:

- 2017/18 0.40%
- 2018/19 0.40%
- 2019/20 0.40%

These are lower than previous levels and are reflective of the current rates available within the financial market.

Investment treasury indicator and limit

This is a control on the total principal funds invested for greater than 364 days. This limit is set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and is based on the availability of funds after each year-end.

Maximum principal sums invested for more than 364 days	2016/17 Probable Outturn	2017/18 Limit	2018/19 Limit	2019/20 Limit
Principal sums invested for more than 364 days	0%	40%	40%	40%

For cashflow management, the Council will seek to utilise its 15 and 30 day notice accounts, money market funds and short-dated deposits (overnight to three months) in order to benefit from the compounding of interest.

Monitoring of Investment Strategy

An update on the investment position of the Council will be reported to Cabinet in the 2017/18 Mid-Year Treasury report and the Annual Treasury Report will be submitted to the Council after the end of the financial year.

Appendix 1: Prudential Indicators 2019 to 2026

Estimates of Capital Expenditure and Income	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
General Services Capital expenditure	24.971	15.904	14.443	17.812	17.534	13.853
Funded by:						
Borrowing	9.517	0.064	-	4.204	3.926	0.245
Receipts / Grants	15.454	14.836	14.443	13.608	13.608	13.608
Funded from Revenue	-	-	-	-	-	-
Funded from Reserves	-	1.004	-	-	-	-
Total	**24.971**	**15.904**	**14.443**	**17.812**	**17.534**	**13.853**
HRA Capital expenditure	44.610	14.099	14.364	14.634	14.909	21.572
Funded by:						
Borrowing	17.235	-	-	-	-	5.247
Receipts / Grants	11.400	-	-	-	-	-
Funded from Revenue	15.034	14.099	14.364	14.634	14.909	16.325
Funded from Reserves	0.941	-	-	-	-	-
Total	**44.610**	**14.099**	**14.364**	**14.634**	**14.909**	**21.572**

Capital Financing Requirement (CFR)	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
General Services	292.134	284.058	274.883	269.646	263.868	253.546
HRA	166.670	161.549	155.793	149.505	142.445	139.826
Sub-total	**458.805**	**445.607**	**430.677**	**419.151**	**406.313**	**393.372**
Less PPP/NPD long-term liability	(100.410)	(98.457)	(96.285)	(93.697)	(91.221)	(88.549)
Sub-total	**358.395**	**347.150**	**334.392**	**325.454**	**315.092**	**304.823**
Movement in CFR						
General Services	2.912	(6.123)	(7.002)	(2.649)	(3.303)	(7.649)
HRA	13.172	(5.121)	(5.756)	(6.289)	(7.060)	(2.619)
Annual Change	**16.084**	**(11.245)**	**(12.758)**	**(8.938)**	**(10.362)**	**(10.269)**

A negative annual change in CFR reflects a reduction in the need to finance capital investment from borrowing.

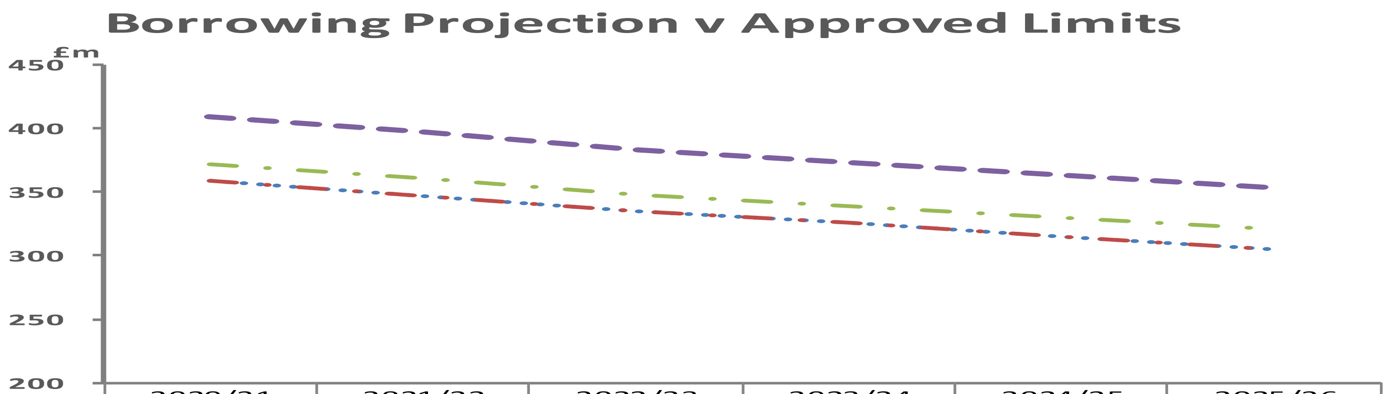
Ratio of financing costs to net revenue stream	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
General Services	5.0%	5.0%	5.4%	5.5%	5.7%	6.0%
HRA	21.0%	22.4%	22.9%	23.0%	23.4%	24.1%

	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Incremental impact of capital investment decisions on Council Tax	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00
Incremental impact of capital investment decisions on housing rent levels	£0.75	£0.22	£0.00	£0.00	£0.00	£0.00

Current Portfolio Position (excluding PPP/NPD)	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
Gross Debt at 31 March	358.395	347.150	334.392	325.454	315.092	304.823
CFR	358.395	347.150	334.392	325.454	315.092	304.823
(Under)/Over Borrowed Position	-	-	-	-	-	-
Current Portfolio Position	**2020/21 Estimate £m**	**2021/22 Estimate £m**	**2022/23 Estimate £m**	**2023/24 Estimate £m**	**2024/25 Estimate £m**	**2025/26 Estimate £m**
Investments at 31 March	10.000	10.000	10.000	10.000	10.000	10.000
Net Debt at 31 March	**348.395**	**337.150**	**324.392**	**315.454**	**305.092**	**294.823**

Operational Boundary	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
Anticipated borrowing	372.161	361.003	348.297	339.096	329.880	321.084
PPP/NPD long-term liability	100.410	98.457	96.285	93.697	91.221	88.549
Operational Boundary	**472.571**	**459.460**	**444.582**	**432.793**	**421.101**	**409.633**

Authorised Limit	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
Operational Boundary + 10%	409.377	397.103	383.126	373.005	362.868	353.192
PPP/NPD long-term liability	100.410	98.457	96.285	93.697	91.221	88.549
Authorised Limit	**509.787**	**495.560**	**479.411**	**466.702**	**454.089**	**441.741**



	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
Gross Debt at 31 March	358.395	347.150	334.392	325.454	315.092	304.823
CFR (Borrowing need)	358.395	347.150	334.392	325.454	315.092	304.823
Operational Boundary	372.161	361.003	348.297	339.096	329.880	321.084
Authorised Limit	409.377	397.103	383.126	373.005	362.868	353.192

Appendix 2: Treasury Risk Register

Risk Title	Description	Consequence of Risk	Current Controls	RAG Status
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 due to 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.	That investment funds will not be returned in full to the Council as per the contractual obligation of the counterparty.	The Council sets minimum credit criteria to determine which counterparties and countries are of sufficiently high creditworthiness to invest securely. The RAG status is Amber because this risk will never be fully eliminated.	Amber
Liquidity Risk	This is the risk that cash will not be available when it is needed. Whilst it could be said that all counterparties are subject to at least a very small level of liquidity risk, 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. While some forms of investment e.g. gilts, Certificates of Deposit, corporate bonds can usually be sold immediately if the need arises, there are two caveats: - a) cash may not be available until a settlement date up to three days after the sale; and b) there is an implied assumption that markets will not freeze up and so the instrument in question will find a ready buyer.	That the Council has insufficient access to cash to enable it to carry out its activities.	The Council has a cash flow forecasting model to enable it to determine how long investments can be made for and how much can be invested. This has a high level of assurance around regular cash inflows and outflows.	Green

Risk Title	Description	Consequence of Risk	Current Controls	RAG Status
Market Risk	This is the risk that, through adverse market fluctuations in the value of the sums that the Council borrows and invests, there is a detrimental impact on the Council.	That investment funds will not be returned in full to the Council as per the contractual obligation of the counterparty due to market variations.	The Council does not purchase investment instruments that are subject to market risk in terms of fluctuation in their value.	Green
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 in this report	That the Council will be faced with unexpected higher interest costs due to market variations.	The Council manages this risk by having a view of the future course of interest rates and then formulating a treasury management strategy accordingly which aims to maximise investment earnings consistent with control of risk or alternatively, seeks to minimise expenditure on interest costs on borrowing	Green
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, including failure to comply with the CIPFA Codes and that the organisation suffers losses accordingly.	That investment funds will not be returned in full to the Council due to the failure of the counterparty to comply with their contractual obligations	The Council will not undertake any form of investing until it has ensured that it has all necessary powers and has complied with all regulations.	Green

Appendix 3: Permitted Investments, Risks and Mitigating Controls

Type of Investment	Description and Risk	Mitigating Controls	Council Limits
Banks unsecured	These are accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks, which are established by more than one country e.g. European Investment Bank. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail.	Diversifying investments is crucial to managing bail-in risk, in addition to determining proportionate counterparty and maturity limits. Certificates of Deposit, which are tradable on the secondary market and which can be sold prior to maturity, will also assist in managing credit risk.	The combined secured and unsecured investments in any one bank will not exceed £10m.
Banks Secured	These are covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. Reverse purchase agreements involve the purchase of securities with the agreement to sell at a future date at a higher price. Collateralised arrangement are an investment with collateral such as properties or debt.	These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits.	The combined secured and unsecured investments in any one bank will not exceed £10m.
Government	These are loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. Includes the UK Debt Management Office.	These investments are not subject to bail-in, and there is an insignificant risk of insolvency.	Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.
Corporates	These are loans, bonds and commercial paper issued by companies other than banks and registered social landlords. Loans to unrated companies will only be made in conjunction with the provision of local public services.	These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. This risk will be mitigated by taking independent external advice and diversifying investments over a number of counterparties.	Loans to unrated companies would be made as part of a diversified pool in order to spread the risk widely.

Type of Investment	Description and Risk	Mitigating Controls	Council Limits
Registered Social Landlords	These are loans and bonds issued by, guaranteed by or secured on the assets of Registered Social Landlords (Housing Associations). These bodies are regulated by the Scottish Housing Regulator and by the Homes and Communities Agency for Registered Providers of Social Housing in England.	As providers of public services, they retain the likelihood of receiving government support if needed and are therefore considered low risk.	Policy driven, managing all associated risks.
Money Market Funds	These are diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a management fee.	Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts.	It is recommended that no more than 10% of the Council's total investments are invested in any one MMF and that the amount invested is no more than 0.5% of the MMF's size.
Other types of investments			
Investment Properties	These are non-operational properties that are being held pending disposal, or for a longer-term rental income stream. They are highly illiquid assets with high risk to value (the potential for property prices to fall or for rental voids).	In larger investment portfolios, some small allocation of property-based investment may counterbalance/complement the wider cash portfolio. Property holding will be re-valued regularly and reported annually with gross and net rental streams. Member approval required and each application must be supported by the service rationale behind the loan and the likelihood of partial or full default.	Policy driven, managing all associated risks.
Loans to third parties, including soft loans	These are service investments either at market rates of interest, or below market rates (soft	Each third party loan requires Member approval and each application must be supported by the service rationale behind the	Policy driven, amount and loan maturity limit will be determined on a case-by-case basis.

Type of Investment	Description and Risk	Mitigating Controls	Council Limits
	loans). These types of investments may exhibit credit risk and are likely to be highly illiquid.	loan and the likelihood of partial or full default. Interest payments and loan repayments will be monitored and the likelihood of partial or full default re-assessed regularly.	
Loans to a local authority company	These are service investments either at market rates of interest, or below market rates (soft loans). These types of investments may exhibit credit risk and are likely to be highly illiquid.	Each loan to a local authority company requires Member approval and each application must be supported by the service rationale behind the loan and the likelihood of partial or full default. Interest payments, loan repayments, and their timeliness will be monitored and the likelihood or partial or full default reassessed regularly.	Policy driven, amount and loan maturity limit determined on a case-by-case basis, managing all associated risks.
Shareholdings in a local authority company	These are service investments, which may exhibit market risk and are likely to be highly illiquid.	Each equity investment in a local authority company requires Member approval and each application must be supported by the service rationale behind the investment and the likelihood of loss. Service investments will be subject to scrutiny by Financial Services on a regular basis, and will include scrutiny of financial statements issued by the local authority company.	Policy driven, amount determined on a case-by-case basis, managing all associated risks.
Non-local authority shareholdings	These are non-service investments, which may exhibit market risk, will only be considered for longer term investments and are likely to be liquid.	Any non-service equity investment will require separate Member approval and each application must be supported by the service rationale behind the investment and the likelihood of loss. Non-service investments will be subject to scrutiny by Financial	Policy driven, amount and anticipated time frame for shareholding determined on a case-by-case basis, managing all associated risks.

Type of Investment	Description and Risk	Mitigating Controls	Council Limits
		Services on a regular basis, reported to Members, and will include scrutiny of financial statements issued by the company.	

Appendix 4: Policy on Repayment of Loans Fund Advances

The purpose of the Loans Fund is to record advances from the loan fund for expenditure incurred, or loans made to third parties, which a local authority has determined are to be financed from borrowing as set out in Regulation 2 of The Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016 ["the Regulations"]. The Council is also statutorily required to repay Loans Fund advances and to therefore prudently determine the periods over which it will repay Loans Fund advances as well as the amount of repayment in any financial year.

Loans Fund advances comprise several items and the estimated opening balances for 2017/18, where applicable for this Authority, are shown below:-

- The Authority's capital expenditure (£319.770m),
- grants to third parties and expenditure on third party assets which would be classified as capital expenditure by a local authority (£0m), and
- loans to third parties (£0m), and
- expenditure for which a borrowing consent has been issued by the Scottish Government (£0m).

Prudent repayment of Loans Fund advances

The Loans Fund Advance is effectively the repayment of the 'principal' linked to the expenditure classified above which is unfinanced and is required to be funded from borrowing. Repayment of Loans Fund advances are required to be made in line with Scottish Government statutory guidance on Loans Fund Accounting. The Authority's annual accounts require to include a disclosure of details of Loans Fund transactions. The HRA Loans Fund advances and associated annual repayments are identified separately from that of the General Fund.

The broad aim of prudent repayment is to ensure that the Authority's unfinanced capital expenditure is financed over the period of years which that expenditure is expected to provide a benefit and that each year's repayment amount is reasonably commensurate with the period and pattern of the benefits.
The statutory guidance requires the Authority to approve a policy on Loans Fund repayments each year, and recommends a number of options for calculating prudent repayments. The Authority's policy is as follows:

For pre-existing Loans Fund advances made up to 31st March 2016 and for forward capital expenditure plans for the period up to and including 31/3/2021, the Authority will use the Statutory Method. This is a continuation of the current statutory method, which repays debt on an annuity basis based on asset lives, which are specified in national guidance. An annuity is similar to the repayment of a mortgage where principal payments are lower at the start of the mortgage and build up to deliver full repayment over the term of the mortgage.

The repayment of Loans Fund advances will therefore be equal to the annual amount determined in accordance with Schedule 3 of the Local Government (Scotland) Act 1975.

Recognising that a local authority may have committed to forward capital expenditure plans and to the revenue implications of that plan, SG Guidance provides for a 5-year transitional period from 31/3/2016 during which the statutory method may continue to be selected. Thereafter the Council will consider the options available to it, one of which will be to continue with an annuity-based payment.

Estimates of prudent Loans Fund repayment

The Authority's latest estimates of its Loans Fund account information are as follows:

Year	Opening Balance £m	Advances to GF £m	Advances to HRA £m	Repayment by GF £m	Repayment by HRA £m	Closing Balance £m
2015/16 actual	264.240	29.826	5.185	-8.282	-2.403	288.566
2016/17	288.566	21.503	0.000	-8.929	-1.973	299.167
2017/18 - 21/22	299.167	45.711	61.640	-42.161	-17.171	347.187
2022/23 - 26/27	347.187	8.375	10.174	-34.920	-35.394	295.422
2027/28 - 31/32	295.422	0.000	6.525	-30.763	-35.415	235.769
2032/33 - 36/37	235.769	0.000	1.690	-39.099	-41.982	156.378
2037/38 - 41/42	156.378	0.000	0.000	-23.203	-24.698	108.477
2042/43 - 46/47	108.477	0.000	0.000	-25.098	-17.071	66.308
2047/48 - 51/52	66.308	0.000	0.000	-22.824	-12.507	30.976
2052/53 - 56/57	30.976	0.000	0.000	-14.968	-10.689	5.320
2057/58 - 61/62	5.320	0.000	0.000	-3.103	-2.216	0.000
2062/63 & later	0.000	0.000	0.000	0.000	0.000	0.000

Policy on Apportioning Interest to the HRA

Interest costs on debt are apportioned to the HRA based on its share of the Council's Loans Fund Advances at the 31st March each year.

Appendix 5: Counterparty Limits

The status of counterparties is monitored regularly. The Council receives credit rating and market information from Arlingclose Limited, including when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately and, if required, new counterparties which meet the criteria will be added to the list. The list of local authorities in the table are those, which are credit rated; however, the Council may lend to rated and unrated UK local authorities.

The Council may invest its funds with any of the counterparties detailed below, subject to the cash limits (per counterparty) and time limits shown. This list reflects the current (February 2017) counterpart list and will be updated throughout the year based on information received by our Treasury Adviser.

					COUNCIL SPECIFIC LIMITS		
Counterparty	Fitch Long-term	Moody's Long-term	S & P Long-term	Banking Group	Individual Cash Limit (£/%)	Group Cash Limit (£/%)	Max Investment period
UNITED KINGDOM: BANKS							
BANK OF SCOTLAND PLC	A+	A1	A	Lloyds Banking Group		£10,000,000	13 months
LLOYDS BANK PLC	A+	A1	A				13 months
BARCLAYS BANK PLC	A	A1	A-		£10,000,000		100 days
CLOSE BROTHERS LTD	A	Aa3					6 months
GOLDMAN SACHS INT'L BANK	A	A1	A+		£10,000,000		100 days
HSBC BANK PLC	AA-	Aa2	AA-		£10,000,000		13 months
NATIONAL WESTMINSTER BANK	BBB+	A3	BBB+	RBS Group		£10,000,000	35 days
ROYAL BANK OF SCOTLAND PLC/T	BBB+	A3	BBB+				35 days
ABBEY NATIONAL TREASURY SERV	A	Aa3		Santander Group		£10,000,000	6 months
SANTANDER UK PLC	A	Aa3	A		£10,000,000		6 months

Counterparty	Fitch Long-term	Moody's Long-term	S & P Long-term	Banking Group	COUNCIL SPECIFIC LIMITS Individual Cash Limit (£/%)	Group Cash Limit (£/%)	Max Investment period
UK: BUILDING SOCIETIES							
COVENTRY BUILDING SOCIETY	A	A2			£1,000,000		6 months
DARLINGTON BUILDING SOCIETY					£1,000,000		100 days
FURNESS BUILDING SOCIETY					£1,000,000		100 days
HINCKLEY & RUGBY BUILDING SOCIETY					£1,000,000		100 days
LEEDS BUILDING SOCIETY	A-	A2			£1,000,000		100 days
LEEK UNITED BUILDING SOCIETY					£1,000,000		100 days
LOUGHBOROUGH BUILDING SOCIETY					£1,000,000		100 days
MANSFIELD BUILDING SOCIETY					£1,000,000		100 days
MARKET HARBOROUGH BUILDING SOCIETY					£1,000,000		100 days
MARSDEN BUILDING SOCIETY					£1,000,000		100 days
MELTON MOWBRAY BUILDING SOCIETY					£1,000,000		100 days
NATIONAL COUNTIES BUILDING SOCIETY					£1,000,000		100 days
NATIONWIDE BUILDING SOCIETY	A	Aa3	A		£10,000,000		6 months
NEWBURY BUILDING SOCIETY					£1,000,000		100 days
SCOTTISH BUILDING SOCIETY					£1,000,000		100 days
STAFFORD RAILWAY BUILDING SOCIETY					£1,000,000		100 days
TIPTON & COSELEY BUILDING SOCIETY					£1,000,000		100 days
UK: LOCAL AUTHORITIES							
CORNWALL COUNCIL		Aa1					4 years +
GREATER LONDON AUTHORITY			AA				4 years +
GUILDFORD BOROUGH COUNCIL		Aa1					4 years +
KENSINGTON & CHELSEA ROYAL BOROUGH			AA				4 years +
LANCASHIRE COUNTY COUNCIL		Aa2					4 years +
TRANSPORT FOR LONDON	AA-	Aa2	AA				10 years
BOROUGH OF WANDSWORTH	AA						4 years +
WARRINGTON BOROUGH COUNCIL		Aa2					4 years +

Counterparty	Fitch Long-term	Moody's Long-term	S & P Long-term	Banking Group	COUNCIL SPECIFIC LIMITS Individual Cash Limit (£/%)	Group Cash Limit (£/%)	Max Investment period
UK: OTHER INSTITUTIONS							
LCR FINANCE PLC	AA	Aa1	AA				15 years
NETWORK RAIL INFRASTRUCTURE	AA	Aa1					15 years
UK GOVERNMENT	AA	Aa1	AAu				50 years
WELLCOME TRUST FINANCE PLC		Aaa	AAA				20 years
COMMONWEALTH OF AUSTRALIA	AAA	Aaa	AAAu				
AUST AND NZ BANKING GROUP	AA-	Aa2	AA-		£10,000,000		6 months
COMMONWEALTH BANK OF AUSTRAL	AA-	Aa2	AA-		£10,000,000		6 months
NATIONAL AUSTRALIA BANK LTD	AA-	Aa2	AA-		£10,000,000		6 months
NEW SOUTH WALES TREASURY COR		Aaa	AAA				25 years
WESTPAC BANKING CORP	AA-	Aa2	AA-		£10,000,000		6 months
GOVERNMENT OF CANADA	AAA	Aaa	AAA				
BANK OF MONTREAL	AA-	Aa3	A+		£10,000,000		13 months
BANK OF NOVA SCOTIA	AA-	Aa3	A+		£10,000,000		13 months
CAN IMPERIAL BK OF COMMERCE	AA-	Aa3	A+		£10,000,000		13 months
EXPORT DEVELOPMENT CANADA		Aaa	AAA				25 years
ROYAL BANK OF CANADA	AA	Aa3	AA-		£10,000,000		13 months
TORONTO-DOMINION BANK	AA-	Aa1	AA-		£10,000,000		13 months
KINGDOM OF DENMARK	AAA	Aaa	AAA				
DANSKE BANK A/S	A	A2	A				100 days
KOMMUNEKREDIT		Aaa	AAA				25 years
REPUBLIC OF FINLAND	AA+	Aa1	AA+				**15 years**
MUNICIPALITY FINANCE PLC		Aa1	AA+				15 years
OP CORPORATE BANK PLC	WD	Aa3	AA-				6 months

Counterparty	Fitch Long-term	Moody's Long-term	S & P Long-term	Banking Group	COUNCIL SPECIFIC LIMITS Individual Cash Limit (£/%)	Group Cash Limit (£/%)	Max Investment period
FEDERAL REPUBLIC OF GERMANY	AAA	Aaa	AAAu				
FMS WERTMANAGEMENT	WD	Aaa	AAA				25 years
KREDITANSTALT FUER WIEFERAUF	AAA	Aaa	AAA				25 years
LANDESBANK HESSEN-THURINGEN	A+	A1	A		£10,000,000		6 months
LANDESKRED BADEN-WUERTT FOER	AAA	Aaa	AAA				25 years
LANDWIRTSCHAFTLICHE RENTENBA	AAA	Aaa	AAA				25 years
LAND SACHSEN-ANHALT	AAA	Aa1	AA+				15 years
KINGDOM OF THE NETHERLANDS	AAA	Aaa	AAAu				
BANK NEDERLANDSE GEMEENTEN	AA+	Aaa	AAA				5 years
COOPERATIEVE RABOBANK UA	AA-	Aa2	A+		£10,000,000		13 months
ING BANK NV	A+	A1	A		£10,000,000		100 days
NEDERLANDSE WATERSCHAPSBANK		Aaa	AAA				5 years
KINGDOM OF NORWAY	AAA	Aaa	AAA				
KOMMUNALBANKEN AS		Aaa	AAA				5 years
REPUBLIC OF SINGAPORE	AAA	Aaa	AAAu				
DBS BANK LTD	AA-	Aa1	AA-		£10,000,000		13 months
OVERSEA-CHINESE BANKING CORP	AA-	Aa1	AA-		£10,000,000		13 months
TEMASEK FINANCIAL I LTD		Aaa	AAA				10 years
UNITED OVERSEAS BANK LTD	AA-	Aa1	AA-		£10,000,000		13 months
KINGDOM OF SWEDEN	AAA	Aaa	AAAu				
NORDEA BANK AB	AA-	Aa3	AA-		£10,000,000		13 months
SVENSK EXPORTKREDIT AB		Aa1	AA+				5 years
SVENSKA HANDELSBANKEN-A SHS	AA	Aa2	AA-		£10,000,000		13 months
SWISS CONFEDERATION	AAA	Aaa	AAAu				
CREDIT SUISSE AG	A	A1	A		£10,000,000		100 days
UNITED STATES OF AMERICA	AAA	Aaa	AA+u				
JPMORGAN CHASE BANK NA	AA-	Aa3	A+		£10,000,000		13 months

Appendix 6: Economic Background – Arlingclose's View November 2016

The major external influence on the Authority's treasury management strategy for 2017/18 will be the UK's progress in negotiating a smooth exit from the European Union. Financial markets, wrong-footed by the referendum outcome, have since been weighed down by uncertainty over whether leaving the Union also means leaving the single market. Negotiations are expected to start once the UK formally triggers exit in early 2017 and last for at least two years. Uncertainty over future economic prospects will therefore remain throughout 2017/18.

The fall and continuing weakness in sterling and the near doubling in the price of oil in 2016 have combined to drive inflation expectations higher. The Bank of England is forecasting that Consumer Price Inflation will breach its 2% target in 2017, the first time since late 2013, but the Bank is expected to look through inflation overshoots over the course of 2017 when setting interest rates to avoid derailing the economy.

Initial post-referendum economic data showed that the feared collapse in business and consumer confidence had not immediately led to lower GDP growth. However, the prospect of a leaving the single market has dented business confidence and resulted in a delay in new business investment and, unless counteracted by higher public spending or retail sales, will weaken economic growth in 2017/18.

Looking overseas, with the US economy and its labour market showing steady improvement, the market has priced in a high probability of the Federal Reserve increasing interest rates in December 2016. The Eurozone meanwhile has continued to struggle with very low inflation and lack of momentum in growth, and the European Central Bank has left the door open for further quantitative easing.

The impact of political risk on financial markets remains significant over the next year. With challenges such as immigration and negative interest rates resulting in savers being paid nothing or even penalised, the outcomes of Italy's referendum on its constitution (December 2016), the French presidential and general elections (April – June 2017) and the German federal elections (August – October 2017) have the potential for upsets.

Credit outlook

Markets have expressed concern over the financial viability of a number of European banks recently. Sluggish economies and continuing fines for pre-crisis behaviour have weighed on bank profits, and any future slowdown will exacerbate concerns in this regard. Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the European Union, Switzerland and USA, while Australia and Canada are progressing with their own plans. The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the Authority; returns from cash deposits however continue to fall.

NORTH AYRSHIRE COUNCIL

Agenda Item 8

1 March 2017

North Ayrshire Council

Title:	**Revenue Estimates 2017/18 - Common Good and Trusts**
Purpose:	To advise Council of the anticipated annual income and expenditure of the Common Good Funds and Trusts administered by North Ayrshire Council and seek approval for the level of grant funding to be made available for disbursement in 2017/18
Recommendation:	That Council (a) approves the 2017/18 revenue estimates for the Common Good Funds and registered charitable trusts noted at 2.13; (b) delegates authority for approval of the individual disbursements from all Common Good and Trusts to the Locality Partnerships, provided that the annual budgeted level of expenditure is not breached: and (c) delegates authority to the Locality Partnerships to approve proposals in relation to dormant trusts later in the year.

1. Executive Summary

1.1 The Council is the custodian of Common Good Funds for the former burghs of Ardrossan, Irvine, Largs, Millport, Saltcoats and Stevenston. In addition, the Council administers a number of Trusts, largely composed of bequests made by individuals many years ago. Of these Trusts, there are only two which accrue significant levels of income; the Spier's Trust and the Margaret Archibald Trust. There are also a number of trusts established for each town for which the Council holds funds, i.e. Beith & Gateside, Dalry, Irvine, Kilbirnie & Glengarnock, Kilwinning and Largs, together with the North Ayrshire Council Trust which incorporates a further seven smaller funds.

1.2 This report summarises the 2017/18 budgets for the Common Good Funds and Trusts, summarised at 2.13 and detailed in Appendix 2.

2. Background

2.1 Each year, the trustees are required to approve the level of expenditure from the Common Good Funds and Trusts with the authority to approve individual disbursements delegated to the Locality Partnerships, provided that the spend is contained within the budget.

2.2 Both the Common Good Funds and the Trusts make annual disbursements to groups and individuals based on approved criteria. Elected Members are trustees of all of the Common Good Funds and Trusts.

2.3 The levels of grant available for disbursement are determined after all expenditure commitments and projected income from assets are assessed. The remaining surplus is generally available for trustees to disburse, ensuring that capital balances are left intact. Disbursement of funds from the capital balance can be considered but will require Council approval. Any disbursement that utilises the full capital balance will result in closure and will require the approval of Office of the Scottish Charity Regulator (OSCR). Where the full amount of grant available is not disbursed and the fund makes a surplus in the year, this will be added to the capital balance.

2.4 The purpose of the Common Good Fund is to benefit the general population within the defined areas of each of the six towns listed at paragraph 1.1

2.5 Following a review of Common Good assets during 2016, it was determined that Ardrossan Civic Centre and Millport Town Hall should be classified as Common Good properties with North Ayrshire Council liable to pay rent to the Ardrossan and Millport Common Good funds for the occupation of the properties. The projected outturns for 2016/17 and proposed budget for 2017/18 have been revised to include a rental payment in respect of these properties. This is partially offset by the anticipated external maintenance costs for the properties. This has resulted in additional funds being available for disbursement in the form of grants from these funds. No historic adjustment has been carried out due to the level of Council investment in both properties.

2.6 On 21 June 2016 Cabinet approved the utilisation of capital funds from the Stevenston Common Good Fund in relation to essential roofing works at a building owned by the Fund. This work is in progress and the costs have been reflected in the 2016/17 projected outturn.

2.7 The 2016/17 budgeted income and grants were based on the prevailing interest rates at February 2016. Due to a reduction in the interest rates during 2016 the projected income will underrecover against budget.

2.8 The Spier's Trust was founded by Mrs Margaret Spier in 1936 for the administration of Spier's School, Beith and for the provision of certain educational grants and bursaries with the local area of benefit comprising the parishes of Beith, Dalry, Dunlop, Kilbirinie, Lochwinnoch and Neilston.

2.9 The purpose of the Margaret Archibald Trust is "to apply the capital and income from time to time at the discretion of the Council for the charitable purpose of persons in need who have attained sixty five years of age living in the Parish of Dalry, Ayrshire".

2.10 The purpose of the town trusts is to provide assistance to persons in need within the defined area of each fund, as specified by the original bequest.

2.11 The remaining smaller trusts administered by the Council are listed in Appendix 1. They generate around £100 of income per year and during 2016/17 thus far there have been no disbursements.

2.12 There are a number of trusts which have not disbursed any grants over the last few years. Further details are provided at 2.13. These are referred to as 'dormant trusts' and options are currently being considered by officers for the appropriate use of the remaining funds, including the depletion of capital balances. Any disbursement that will result in the winding up of a registered trust must be approved by the Office of the Scottish Charity Regulator (OSCR) before the relevant Locality Partnership agrees the grant.

2.13 The following table summarises the anticipated income and expenditure for the Common Good Funds and major Trusts. Further details can be found in Appendix 2.

	Estimated Balance as at 1 April 2017	Estimated Income 2017/18	Estimated Other Expenditure 2017/18	Estimated Grants Available for Disbursements 2017/18	Estimated Balance as at 31 March 2018
Common Good Funds					
Ardrossan	157,634	39,150	(12,140)	(27,010)	157,634
Irvine	976,400	71,450	(13,183)	(58,267)	976,400
Largs	435,146	19,987	(4,425)	(15,562)	435,146
Millport	65,529	12,455	(3,740)	(8,715)	65,529
Saltcoats	17,012	93	(90)	(3)	17,012
Stevenston	134,868	15,325	(390)	(14,935)	134,868
Total Common Good Funds	**1,786,589**	**158,460**	**(33,968)**	**(124,492)**	**1,786,589**
Registered Charitable Trusts					
Beith & Gateside	9,779	55	-	(55)	9,779
Dalry	9,884	54	-	(54)	9,884
Irvine	22,903	124	-	(124)	22,903
Kilbirnie & Glengarnock*	5,477	30	-	(30)	5,477
Kilwinning	129,389	704	-	(704)	129,389
Largs*	18,043	98	-	(98)	18,043
Speir's Trust	43,567	3,644	(140)	(3,504)	43,567
Margaret Archibald Trust	181,508	8,950	-	(8,950)	181,508
Douglas Sellers Trust*	1,804	10	-	(10)	1,804
Anderson Park Trust*	802	5	-	(5)	802
North Ayrshire Council Charitable Trust	37,037	1,978	-	(1,978)	37,037
Total Trusts	**460,194**	**15,652**	**(140)**	**(15,512)**	**460,194**

* These trusts were identified as dormant by Audit Scotland in their audit report of 23 September 2016.

3. Proposals

3.1 That Council (a) approves the 2017/18 revenue estimates for the Common Good Funds and registered charitable trusts noted at 2.13; (b) delegates authority for approval of the individual disbursements from all Common Good and Trusts to the Locality Partnerships, provided that the annual budgeted level of expenditure is not breached: and (c) delegates authority to the Locality Partnerships to approve proposals in relation to dormant trusts later in the year.

4. Implications

Financial:	Approval of the budgets outlined in paragraph 2.13 and in Appendix 2 will allow each Locality Partnership to disburse individual grants up to the value of the approved levels
Human Resources:	None
Legal:	None
Equality:	None
Environmental & Sustainability:	None
Key Priorities:	The proposals contained in this report link to the following strategic priorities : ● Helping all of our people to stay safe, healthy and active; ● Working together to develop stronger communities; and ● Protecting and enhancing the environment for future generations.
Community Benefits:	Grants will be disbursed to people or groups within the community who meet the necessary criteria.

5. Consultation

None

Laura Friel

LAURA FRIEL
Executive Director (Finance and Corporate Support)

Reference :
For further information please contact David Forbes, Senior Manager - Financial Management on 01294 324551

Background Papers
Revenue Estimates 2016/17 - Common Good and Trusts - Council - 17 February 2016

Sundry Bequests

Name of Funds	Original Investment	Projected Income 2016/17	Projected Disbursement 2016/17	Purpose of Bequest
	£	£	£	
Isabella McPhee Memorial Fund	2,706	15	-	Largs - Annual Putting Competition (Mackerston)
N Stewart	1,537	8	-	Provision of Liberty at Rothesay and Arran
Sturrock	2,780	15	-	Upkeep of Springside Community Centre
Clark Trophy	519	3	-	Road Safety Competition
Ayrshire Accident Relief	3,663	20	-	Accident Relief
Cast/Florist/N Child	265	1	-	No information available
Miss Hanslip Bequest	1,091	6	-	No information available
Total	**12,561**	**68**	**-**	

Index of Common Good and Trust Funds

Budget 2016/17 £	Projected Outturn 2016/17 £	COMMON GOOD FUND - ARDROSSAN	Proposed Budget 2017/18 £
119,090	**119,090**	**Projected Common Good Balance Brought Forward at 1 April**	**157,634**
		INCOME	
-	38,500	Rental - Ardrossan Civic Centre	38,500
600	644	Loans Fund Interest (on cash balances)	650
600	**39,144**	**TOTAL INCOME FOR THE YEAR**	**39,150**
		EXPENDITURE	
		Property Costs	
	-	External Property Repairs	12,000
		Others	
140	140	Administration - Charge from Finance	140
140	**140**	**SUB TOTAL OF EXPENDITURE**	**12,140**
460	**39,004**	**SURPLUS/(DEFICIT) FOR THE YEAR BEFORE GRANTS**	**27,010**
460	460	Disbursement of Grants	27,010
-	**38,544**	**FINAL SURPLUS/(DEFICIT) FOR THE YEAR INCLUDING GRANTS**	**-**
119,090	**157,634**	**COMMON GOOD BALANCE CARRIED FORWARD AT 31 MARCH**	**157,634**

Budget 2016/17 £	Projected Outturn 2016/17 £	COMMON GOOD FUND - IRVINE	Proposed Budget 2017/18 £
984,619	**984,619**	**Projected Common Good Balance Brought Forward at 1 April**	**976,400**
		INCOME	
		Property Rentals	
25,000	25,000	Woodlands Centre (Education & Youth Employment)	25,000
11,500	11,500	Bank Street (Church of Latter Day Saints)	11,500
4,000	4,000	Redburn Community Centre (Education & Youth Employment)	4,000
11,000	11,000	Fairground (Marymass)	11,000
13,000	13,000	Ground East Road (McConnachies)	13,000
2,000	2,000	East Road New Car Park	2,000
		Other Income	
6,610	4,938	Loans Fund Interest (on cash balances)	4,950
73,110	**71,438**	**TOTAL INCOME FOR THE YEAR**	**71,450**
		EXPENDITURE	
		Property Costs	
500	-	General Repairs	500
10,600	13,264	Rates on vacant properties	10,600
500	670	Electricity	700
-	827	Legal Fees	-
500	333	Other Property Costs	333
12,100	15,094		12,133
		Others	
1,050	1,050	Administration - Charge from Finance	1,050
1,050	1,050		1,050
13,150	**16,144**	**SUB TOTAL OF EXPENDITURE**	**13,183**
59,960	**55,294**	**SURPLUS/(DEFICIT) FOR THE YEAR BEFORE GRANTS**	**58,267**
59,960	63,513	Disbursement of Grants	58,267
-	**- 8,219**	**FINAL SURPLUS/(DEFICIT) FOR THE YEAR INCLUDING GRANTS**	**-**
984,619	**976,400**	**COMMON GOOD BALANCE CARRIED FORWARD AT 31 MARCH**	**976,400**

Budget 2016/17 £	Projected Outturn 2016/17 £	COMMON GOOD FUND - LARGS	Proposed Budget 2017/18 £
426,468	**426,468**	**Projected Common Good Balance Brought Forward at 1 April**	**435,146**
		INCOME	
		Property Rentals (Including Insurance Premiums)	
4,500	4,500	Routenburn Golf Club	4,500
7,125	7,312	Haylie House	7,312
1,250	1,663	Douglas Park Bowling Club	1,250
210	210	Douglas Park Grazings	210
3,900	4,000	Douglas Park Tennis Club & Children's Nursery	4,000
		Other Income	
3,670	2,713	Loans Fund Interest (on cash balances)	2,715
20,655	**20,398**	**TOTAL INCOME FOR THE YEAR**	**19,987**
		EXPENDITURE	
		Property Costs	
750	167	Water & Sewerage	-
100	-	Legal Fees	-
1,000	2,914	Electricity	3,000
500	244	Other Property Costs	500
		Others	
925	925	Administration - Charge from Finance	925
3,275	**4,250**	**SUB TOTAL OF EXPENDITURE**	**4,425**
17,380	**16,148**	**SURPLUS/(DEFICIT) FOR THE YEAR BEFORE GRANTS**	**15,562**
17,380	7,470	Disbursement of Grants	15,562
-	**8,678**	**FINAL SURPLUS/(DEFICIT) FOR THE YEAR INCLUDING GRANTS**	**-**
426,468	**435,146**	**COMMON GOOD BALANCE CARRIED FORWARD AT 31 MARCH**	**435,146**

Budget 2016/17 £	Projected Outturn 2016/17 £	COMMON GOOD FUND - MILLPORT	Proposed Budget 2017/18 £
53,124	**53,124**	**Projected Common Good Balance Brought Forward at 1 April**	**65,529**
		INCOME	
50	83	Sale of published materials	80
-	12,375	Rental - Millport Town Hall	12,375
300	287	Loans Fund Interest (on cash balances)	288
350	**12,745**	**TOTAL INCOME FOR THE YEAR**	**12,455**
		EXPENDITURE	
		Property Costs	
	-	External Property Repairs	3,600
		Others	
140	140	Administration - Charge from Finance	140
140	**140**	**SUB TOTAL OF EXPENDITURE**	**3,740**
210	**12,605**	**SURPLUS/(DEFICIT) FOR THE YEAR BEFORE GRANTS**	**8,715**
210	200	Disbursement of Grants	8,715
-	**12,405**	**FINAL SURPLUS/(DEFICIT) FOR THE YEAR INCLUDING GRANTS**	**-**
53,124	**65,529**	**COMMON GOOD BALANCE CARRIED FORWARD AT 31 MARCH**	**65,529**

Budget 2016/17 £	Projected Outturn 2016/17 £	COMMON GOOD FUND - SALTCOATS	Proposed Budget 2017/18 £
17,050	**17,050**	**Projected Common Good Balance Brought Forward at 1 April**	**17,012**
		INCOME	
130	92	Loans Fund Interest (on cash balances)	93
130	**92**	**TOTAL INCOME FOR THE YEAR**	**93**
		EXPENDITURE	
90	90	Administration - Charge from Finance	90
90	**90**	**SUB TOTAL OF EXPENDITURE**	**90**
40	**2**	**SURPLUS/(DEFICIT) FOR THE YEAR BEFORE GRANTS**	**3**
40	40	Disbursement of Grants	3
-	**(38)**	**FINAL SURPLUS/(DEFICIT) FOR THE YEAR INCLUDING GRANTS**	**-**
17,050	**17,012**	**COMMON GOOD BALANCE CARRIED FORWARD AT 31 MARCH**	**17,012**

Budget 2016/17 £	Projected Outturn 2016/17 £	COMMON GOOD FUND - STEVENSTON	Proposed Budget 2017/18 £
198,983	**198,983**	**Projected Common Good Balance Brought Forward at 1 April**	**134,868**
		INCOME	
		Property Rentals	
14,250	14,250	New Street (Health & Social Care)	14,250
		Other Income	
-	1,078	Repayment of Grants	-
1,465	1,076	Loans Fund Interest (on cash balances)	1,075
15,715	**16,404**	**TOTAL INCOME FOR THE YEAR**	**15,325**
		EXPENDITURE	
		Property Costs	
250	75,233	Property Repairs (Including £75,000 for roofing work at 157 New Street)	250
		Others	
140	140	Administration - Charge from Finance	140
390	**75,373**	**SUB TOTAL OF EXPENDITURE**	**390**
15,325	**- 58,970**	**SURPLUS/(DEFICIT) FOR THE YEAR BEFORE GRANTS**	**14,935**
15,325	5,145	Disbursement of Grants	14,935
-	**- 64,115**	**FINAL SURPLUS/(DEFICIT) FOR THE YEAR INCLUDING GRANTS**	**-**
198,983	**134,868**	**COMMON GOOD BALANCE CARRIED FORWARD AT 31 MARCH**	**134,868**

Budget 2016/17 Total £	Projected Outturn 2016/17 Total £	NAC (BEITH & GATESIDE) CHARITABLE TRUST	Proposed Budget 2017/18 Poverty £	Proposed Budget 2017/18 Education £	Proposed Budget 2017/18 Total £
9,726	**9,726**	**Projected Trust Balance Brought Forward at 1 April**	**7,045**	**2,748**	**9,779**
		INCOME			
68	53	Loans Fund Interest (on cash balances)	39	16	55
68	**53**	**TOTAL INCOME FOR THE YEAR**	**39**	**16**	**55**
		EXPENDITURE			
68	-	Disbursement of Grants	39	16	55
68	**-**	**TOTAL EXPENDITURE FOR THE YEAR**	**39**	**16**	**55**
-	**53**	**FINAL SURPLUS/(DEFICIT) FOR THE YEAR**	**-**	**-**	**-**
9,726	**9,779**	**TRUST BALANCE CARRIED FORWARD AT 31 MARCH**	**7,045**	**2,748**	**9,779**

Budget 2016/17 £	Projected Outturn 2016/17 £	NAC (DALRY) CHARITABLE TRUST	Proposed Budget 2017/18 Poverty £
9,831	**9,831**	**Projected Trust Balance Brought Forward at 1 April**	**9,884**
		INCOME	
75	53	Loans Fund Interest (on cash balances)	54
75	**53**	**TOTAL INCOME FOR THE YEAR**	**54**
		EXPENDITURE	
75	-	Disbursement of Grants	54
75	**-**	**TOTAL EXPENDITURE FOR THE YEAR**	**54**
-	**53**	**FINAL SURPLUS/(DEFICIT) FOR THE YEAR**	**-**
9,831	**9,884**	**TRUST BALANCE CARRIED FORWARD AT 31 MARCH**	**9,884**

Budget 2016/17 Total £	Projected Outturn 2016/17 Total £	NAC (IRVINE) CHARITABLE TRUST	Proposed Budget 2017/18 Poverty £	Proposed Budget 2017/18 Age/ Ill Health/ Disability £	Proposed Budget 2017/18 Total £
22,780	**22,780**	**Projected Trust Balance Brought Forward at 1 April**	**10,747**	**12,156**	**22,903**
		INCOME			
170	123	Loans Fund Interest (on cash balances)	58	66	124
170	**123**	**TOTAL INCOME FOR THE YEAR**	**58**	**66**	**124**
		EXPENDITURE			
170	-	Disbursement of Grants	58	66	124
170	**-**	**TOTAL EXPENDITURE FOR THE YEAR**	**58**	**66**	**124**
-	**123**	**FINAL SURPLUS/(DEFICIT) FOR THE YEAR**	**-**	**-**	**-**
22,780	**22,903**	**TRUST BALANCE CARRIED FORWARD AT 31 MARCH**	**10,747**	**12,156**	**22,903**

Budget 2016/17 Total £	Projected Outturn 2016/17 Total £	NAC (KILBIRNIE & GLENGARNOCK) CHARITABLE TRUST	Proposed Budget 2017/18 Recreation £	Proposed Budget 2017/18 Age/ Ill Health/ Disability £	Proposed Budget 2017/18 Total £
5,448	**5,448**	**Projected Trust Balance Brought Forward at 1 April**	**4,177**	**1,300**	**5,477**
		INCOME			
42	29	Loans Fund Interest (on cash balances)	23	7	30
42	**29**	**TOTAL INCOME FOR THE YEAR**	**23**	**7**	**30**
		EXPENDITURE			
42	-	Disbursement of Grants	23	7	30
42	**-**	**TOTAL EXPENDITURE FOR THE YEAR**	**23**	**7**	**30**
-	**29**	**FINAL SURPLUS/(DEFICIT) FOR THE YEAR**	**-**	**-**	**-**
5,448	**5,477**	**TRUST BALANCE CARRIED FORWARD AT 31 MARCH**	**4,177**	**1,300**	**5,477**

Budget 2016/17 Total £	Projected Outturn 2016/17 Total £	NAC (KILWINNING) CHARITABLE TRUST	Proposed Budget 2017/18 Poverty £	Proposed Budget 2017/18 Age/ Ill Health/ Disability £	Proposed Budget 2017/18 Total £
129,653	**129,653**	**Projected Trust Balance Brought Forward at 1 April**	**128,674**	**715**	**129,389**
		INCOME			
965	701	Loans Fund Interest (on cash balances)	700	4	704
965	**701**	**TOTAL INCOME FOR THE YEAR**	**700**	**4**	**704**
		EXPENDITURE			
965	965	Disbursement of Grants	700	4	704
965	**965**	**TOTAL EXPENDITURE FOR THE YEAR**	**700**	**4**	**704**
-	**(264)**	**FINAL SURPLUS/(DEFICIT) FOR THE YEAR**	**-**	**-**	**-**
129,653	**129,389**	**TRUST BALANCE CARRIED FORWARD AT 31 MARCH**	**128,674**	**715**	**129,389**

Budget 2016/17 £	Projected Outturn 2016/17 £	NAC (LARGS) CHARITABLE TRUST	Proposed Budget 2017/18 Poverty £
17,946	**17,946**	**Projected Trust Balance Brought Forward at 1 April**	**18,043**
		INCOME	
120	97	Loans Fund Interest (on cash balances)	98
120	**97**	**TOTAL INCOME FOR THE YEAR**	**98**
		EXPENDITURE	
120	-	Disbursement of Grants	98
120	**-**	**TOTAL EXPENDITURE FOR THE YEAR**	**98**
-	**97**	**FINAL SURPLUS/(DEFICIT) FOR THE YEAR**	**-**
17,946	**18,043**	**TRUST BALANCE CARRIED FORWARD AT 31 MARCH**	**18,043**

Budget 2016/17 £	Projected Outturn 2016/17 £	SPIER'S TRUST	Proposed Budget 2017/18 £
41,213	**41,213**	**Projected Trust Balance Brought Forward at 1 April**	**43,567**
		INCOME	
685	822	Share dividends	825
220	158	Loans Fund Interest (on cash balances)	159
2,660	2,660	Rent	2,660
3,565	**3,640**	**TOTAL INCOME FOR THE YEAR**	**3,644**
		EXPENDITURE	
3,565	1,150	Disbursement of Grants	3,504
-	136	Insurance	140
3,565	**1,286**	**TOTAL EXPENDITURE FOR THE YEAR**	**3,644**
-	**2,354**	**FINAL SURPLUS/(DEFICIT) FOR THE YEAR INCLUDING GRANTS**	**-**
41,213	**43,567**	**TRUST BALANCE CARRIED FORWARD AT 31 MARCH**	**43,567**

Budget 2016/17 £	Projected Outturn 2016/17 £	MARGARET ARCHIBALD BEQUEST	Proposed Budget 2017/18 £
176,583	**176,583**	**Projected Trust Balance Brought Forward at 1 April**	**181,508**
		INCOME	
8,310	8,717	Share dividends	8,750
-	10	Repayment of Grant	-
260	198	Loans Fund Interest (on cash balances)	200
8,570	**8,925**	**TOTAL INCOME FOR THE YEAR**	**8,950**
		EXPENDITURE	
8,570	4,000	Disbursement of Grants	8,950
8,570	**4,000**	**TOTAL EXPENDITURE FOR THE YEAR**	**8,950**
-	**4,925**	**FINAL SURPLUS/(DEFICIT) FOR THE YEAR INCLUDING GRANTS**	**-**
176,583	**181,508**	**TRUST BALANCE CARRIED FORWARD AT 31 MARCH**	**181,508**

Budget 2016/17 £	Projected Outturn 2016/17 £	DOUGLAS SELLERS TRUST	Proposed Budget 2017/18 Recreation £
1,796	**1,796**	**Projected Trust Balance Brought Forward at 1 April**	**1,804**
		INCOME	
14	8	Loans Fund Interest (on cash balances)	10
14	**8**	**TOTAL INCOME FOR THE YEAR**	**10**
		EXPENDITURE	
14	-	Disbursement of Grants	10
14	**-**	**TOTAL EXPENDITURE FOR THE YEAR**	**10**
-	**8**	**FINAL SURPLUS/(DEFICIT) FOR THE YEAR**	**-**
1,796	**1,804**	**TRUST BALANCE CARRIED FORWARD AT 31 MARCH**	**1,804**

Budget 2016/17 £	Projected Outturn 2016/17 £	ANDERSON PARK TRUST	Proposed Budget 2017/18 Recreation £
798	**798**	**Projected Trust Balance Brought Forward at 1 April**	**802**
		INCOME	
7	4	Loans Fund Interest (on cash balances)	5
7	**4**	**TOTAL INCOME FOR THE YEAR**	**5**
		EXPENDITURE	
7	-	Disbursement of Grants	5
7	**-**	**TOTAL EXPENDITURE FOR THE YEAR**	**5**
-	**4**	**FINAL SURPLUS/(DEFICIT) FOR THE YEAR**	**-**
798	**802**	**TRUST BALANCE CARRIED FORWARD AT 31 MARCH**	**802**

Budget 2016/17 £	Projected Outturn 2016/17 £	NORTH AYRSHIRE COUNCIL CHARITABLE TRUST (excluding SPIER'S TRUST)	Proposed Budget 2017/18 Education £	Proposed Budget 2017/18 Recreation £	Proposed Budget 2017/18 Other £	Proposed Budget 2017/18 Total £
35,745	**35,745**	**Projected Trust Balance Brought Forward at 1 April**	**11,052**	**25,502**	**483**	**37,037**
		INCOME				
1,520	1,785	Dividends	375	1,415	-	1,790
248	187	Loans Fund Interest (on cash balances)	60	125	3	188
1,768	**1,972**	**TOTAL INCOME FOR THE YEAR**	**435**	**1,540**	**3**	**1,978**
		EXPENDITURE				
1,768	680	Disbursement of Grants	435	1,540	3	1,978
1,768	**680**	**TOTAL EXPENDITURE FOR THE YEAR**	**435**	**1,540**	**3**	**1,978**
-	**1,292**	**FINAL SURPLUS/(DEFICIT) FOR THE YEAR**	**-**	**-**	**-**	**-**
35,745	**37,037**	**TRUST BALANCE CARRIED FORWARD AT 31 MARCH**	**11,052**	**25,502**	**483**	**37,037**