NORTH AYRSHIRE COUNCIL

26 November 2019

Cabinet

Title:	**Treasury Management and Investment Mid-Year Report 2019/20**
Purpose:	To provide Cabinet with a Treasury Management update for the period 1 April to 30 September 2019.
Recommendation:	That Cabinet agrees to (a) endorse the contents of the Treasury Management and Investment Mid-Year Report for 2019/20 (Appendix 1); (b) note the Prudential and Treasury Indicators contained therein; and (c) note the changes arising from the review of Loans Fund Advances.

1. Executive Summary

1.1 The Treasury Management and Investment Strategy and treasury management indicators provide a framework for the Council's treasury activities to ensure the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks.

1.2 This mid-year review report:

- provides an update on performance to 30 September 2019;
- updates the annual prudential indicators to reflect the latest information available to the Council;
- demonstrates that the treasury management activities carried out during the period 1 April to 30 September 2019 have been consistent with the Treasury Management and Investment Strategy 2019/20 and have complied with the treasury management indicators set out in the Strategy; and
- details the review of Loan Fund Advances and the resulting changes.

2. Background

General Fund

2.1 The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2017) requires that Elected Members are provided with regular monitoring reports on treasury management activities. The Treasury Management Strategy for 2019/20 was approved by Council on 27 February 2019.

This report is the Mid-Year Report, providing Cabinet with an update on treasury management activities for the period 1 April to 30 September 2019. Council will receive an annual report following the end of the financial year.

These reports ensure that the Council is meeting best practice in accordance with CIPFA's Code of Practice.

2.2 The 2019/20 Mid-Year Report is attached at Appendix 1 and covers:

- Prudential and treasury indicators;
- Borrowing and associated rates; and
- Investments and associated rate of return.

2.3 This report provides an update on performance to 30 September 2019 and the annual prudential indicators to reflect the latest information. It is a statutory duty for the Council to determine and keep under review its approved borrowing limits and prudential indicators. Details within the report demonstrate that during the period 1 April to 30 September 2019 the Council has operated within the authorised and operational limits and prudential indicators as set out in the Council's 2019/20 Annual Treasury Management Strategy Statement (TMSS).

2.4 The Executive Summary of the Mid-Year Report provides a high level overview of treasury management and performance, with more detail provided in the body of the report. Key points to note are:

- the re-profiling of capital expenditure into future years and continued use of internal resources have had an impact on all of the prudential indicators;
- during the year the council has undertaken £20m long term borrowing along with temporary borrowing and use of internal balances to balance short term financial savings with longer term security of costs;
- The PWLB margin increases by 1% on 9 October 2019. The Council will monitor the impact of this change and review the strategy with regards to the balance of long and short term borrowing and use of internal balances as appropriate,
- investment returns are above the targeted returns and is reflective of the increased diversification of the Council's investment portfolio to maximise return whilst minimising risk.

2.5 Following the introduction of the Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016, the calculation of Loans Fund Advances for both the General Fund and the HRA has been undertaken, releasing £9.800m from earmarked reserves within the General Fund and reducing the requirement for prudential borrowing within the HRA.

3. Proposals

3.1 It is proposed that Cabinet (a) endorse the contents of the Treasury Management and Investment Mid-Year Report for 2018/19 (Appendix 1); (b) note the Prudential and Treasury Indicators contained therein; and (c) note the changes arising from the review of Loans Fund Advances.

4. Implications/Socio-economic Duty

Financial

4.1 **General Services**

Capital Financing Costs - the Council budgeted £19.201m for financing costs and expenses on debt for 2019/20. It is currently estimated that actual costs will total £17.051m. This underspend will be transferred to the Loans Fund Reserve in line with the previously agreed policy to support delivery of the capital investment programme.

Review of Loans Fund Advances - £9.800m of earmarked reserves has been transferred to the General Fund Unearmarked Balance. Proposals for the utilisation of these funds will be considered as part of the Medium Term Financial Plan 2020/21 to 2022/23.

Housing Revenue Account

Capital Financing Costs - the Council budgeted £8.397m for financing costs and expenses for debt in 2019/20. It is currently estimated that actual costs will total £7.976m.

Review of Loans Fund Advances – the HRA Business Plan will be updated to reflect a £7.036m reduced requirement for prudential borrowing over the period to 2027/28.

In both cases, the main reasons for the underspends are a) the current strategy to use short-term external borrowing as well as utilising cash balances, resulting in savings on external interest costs and b) realignment of capital income which reduces the need for borrowing, resulting in savings on loans fund principal and interest payments.

Human Resources

4.2 None.

Legal

4.3 None.

Equality/Socio-economic

4.4 None.

Environmental and Sustainability

4.5 None.

Key Priorities

4.6 This report directly supports the Council Plan 2019 to 2024 by maximising resources and providing value for money to support financially sustainable delivery models.

Community Wealth Building

4.7 None.

5. Consultation

5.1 The review of Loans Fund Advances has been shared with the Council's external auditors.

Laura Friel
Executive Director (Finance and Corporate Support)

For further information please contact **David Forbes, Senior Manager (Strategic Business Partner),** on **01294 324551**.

Background Papers
Treasury Management and Investment Strategy 2019/20 – Council 27 February 2019
Loans Fund Model - November 2019

North Ayrshire Council
Comhairle Siorrachd Àir a Tuath

Treasury Management and Investment Mid-Year Report

2019/20

PublicFinance INNOVATION AWARDS 2017
FINALIST

Contents

Treasury Management and Investment Mid-Year Review 2019/20

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 2017) to produce a mid-year review of treasury management activities. The purpose of this mid-year review is to report the performance of the Council's treasury operation and how this measures up against the Council's Treasury Management and Investment Strategy. This is done through the publication of updated prudential and treasury indicators for 2019/20.

This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

During 2019/20, to meet the minimum reporting requirement, the following reports should be submitted to Elected Members:

- an annual treasury management and investment strategy (submitted to the Council on 27 February 2019)
- the capital strategy (submitted to the Council on 27 February 2019)
- a mid-year treasury update report (this report)
- an annual review following the end of the year describing the activity compared to the strategy (will be submitted to Council in June 2020)

Regulations place responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of treasury activities for the six months to 30 September 2019 and highlights performance against the Council's policies previously approved by members.

2. Executive Summary

During the six month period to 30 September 2019, the Council complied with its legislative and regulatory requirements.

The **key prudential and treasury indicators** for 2019/20 have been updated based on the latest available information and will be used to assess performance at the end of the year.

TABLE 1

Prudential and treasury indicators	2019/20 Original Estimate £m	2019/20 Revised Estimate £m
Capital expenditure **(Indicator 1)**		
· Non-HRA	55.817	52.853
· HRA	64.423	44.118
· **Total**	**120.240**	**96.971**
Capital Financing Requirement (CFR):		
· Non-HRA	204.377	195.719
· HRA	163.993	132.433
· **Total**	**368.370**	**328.152**
Gross borrowing **(Indicator 4)**	368.370	318.152
Operational Boundary **(Indicator 5)**	383.326	352.495
Authorised Limit **(Indicator 6)**	421.659	387.745
Investments **(Indicator 8)**		
· Longer than 1 year	-	-
· Under 1 year	20.000	24.650
· **Total**	**20.000**	**24.650**

A summary of performance is provided below with more detailed information provided in the body of the report.

Capital Expenditure for both the General Fund and HRA vary from original estimates due to changes in the profile of projects and the receipt of new external funding. Full details of all movements in the capital expenditure budgets are included in the capital programme performance reports submitted to Cabinet throughout the year.

The **Capital Financing Requirement (CFR)** is the underlying borrowing requirements of the Council. The reduction to the requirement during 2019/20 reflects the change in profile of the capital programme as well as changes in estimates of external funding.

Gross Borrowing reflects the actual borrowing which has been undertaken. This is projected to be lower than anticipated due to the revised profile of capital projects and the use of temporary borrowing and internal funds, the latter being a key element of the Treasury Management Strategy to minimise costs.

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 in-year variance is linked to the use of internal funds and the re-profiling of the capital programme.

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

The Council has a strategy of taking a combination of temporary and permanent borrowing in recognition of the Council's longer term borrowing requirements and the market rates available at that time. This balances short term financial savings with longer term security of costs. In the period 1 April to 30 September 2019 there were a number of instances of temporary borrowing and at 30 September 2019 the value amounted to £17m, which is due to be repaid at various dates between now and 10 September 2020. In the same period the Council also took out an additional £20m long term borrowing.

Following a 1% increase in PWLB rates on 9 October 2019, the Council will monitor the impact of the change and review its strategy with regards to the balance of long term and short term borrowing and the utilisation of internal balances and other source of funding as appropriate.

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

- Percentage of financial costs relative to the net revenue stream of the General fund and Housing Revenue Account.

As at 30 September 2019 the above indicator shows estimated ratios of 5.1% and 16.9% for General Fund and HRA respectively.

The **average investment** rate to 30 September 2019 was 0.79%, compared to a target of 0.60% and actual in 2018/19 of 0.48%. The higher return secured this year to date reflects the increased diversification of the Council's investment portfolio to maximise return whilst minimising risk.

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

Following a review of The Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016, a review of General Services and HRA loans fund advances has been undertaken. The resulting actions will release £9.800m of earmarked funds to the General Fund Unearmarked Balance. Proposals for the utilisation of these funds will be presented to Council as part of the Medium Term Financial Plan 2020/21 to 2022/23. Within the HRA, reduced repayments over the medium term will be reflect in a £7.036m reduction in the requirement for prudential borrowing over this period.

Conclusion

The Executive Director (Finance and Corporate Support) confirms that long-term borrowing is only undertaken for a capital purpose and the statutory borrowing limit (the authorised limit) has not been breached.

3. Prudential and Treasury Indicators for 2019/20

The Prudential Code establishes 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.

These indicators help the Council to demonstrate public accountability in relation to borrowing and investments. As part of this accountability this report will summarise the following: -

- Capital activity during the year (section a);
- Impact of this activity on the Council's underlying debt (the Capital Financing Requirement) (section b);
- The actual prudential and treasury indicators (section a – e);
- Overall treasury position identifying how the Council has borrowed in relation to this debt, and the impact on investment balances (section e);
- Detailed debt activity (section e); and
- Summary of interest rate movements in the year (section 4);
- Detailed investment activity (section 5).

(a) The Council's Capital Expenditure and Financing 2019/20 (Prudential Indicator 1)

The Council incurs capital expenditure when it invests in its long term assets. Capital Expenditure can be funded in two main ways:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply other resources, the capital expenditure will give rise to borrowing, which is approved as part of the Council's investment plans.

The tables below show the planned capital expenditure for 2019/20 and the latest forecast alongside the amount estimated to be financed in year and the amount which will give rise to borrowing.

TABLE 2

General Fund	2019/20 Original Estimate £m	2019/20 Revised Estimate £m
Capital expenditure (Indicator 1)	**55.817**	**52.853**
Financed in year from external funding and reserves	29.849	35.309
Unfinanced capital expenditure	**25.968**	**17.544**
HRA	2019/20 Original Estimate £m	2019/20 Revised Estimate £m
Capital expenditure (Indicator 1)	**64.423**	**44.118**
Financed in year from external funding and reserves	18.130	29.222
Unfinanced capital expenditure	**46.293**	**14.896**

(b) The Council's Overall Borrowing Need (the Capital Financing Requirement) (Prudential Indicators 2 and 3)

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 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), by utilising temporary cash resources within the Council or through temporary borrowing from other local authorities.

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 capital commitments. 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 for the year is shown in the following table and is a key prudential indicator. The opening balance excludes the PPP / NPD schemes because no borrowing is actually required against these schemes as a borrowing facility is included in the contract.

Table 3 shows that based on historic capital expenditure and this year's capital expenditure the Council has a cumulative underlying borrowing need of £328.152 forecast at 31 March 2020. This is lower than the original estimate as a result of changes in the profile of capital projects and the receipt of new external funding.

TABLE 3

CFR	2019/20 Original Estimate £m	2019/20 Revised Estimate £m
Opening Balance	**307.862**	**307.680**
Add unfinanced capital expenditure (General Fund and HRA per Table 2)	72.261	32.440
Less Loans Fund Principal Repayments	(11.753)	(11.968)
Closing balance (Indicator 2)	**368.370**	**328.152**
Annual Change (Indicator 3)	**60.508**	**20.472**

(c) Limits to Borrowing Activity (Prudential Indicators 4 - 6)

Borrowing activity is constrained by the prudential indicators for CFR, gross borrowing and by the authorised limit to ensure the Council operates its activities within well-defined limits.

Gross borrowing and the CFR

There is a need to ensure that gross debt does not, except in the medium term, exceed the total CFR (i.e. the Council does not borrow more than it needs to fund its capital programme). In exceptional circumstances Councils are allowed to borrow to cover the current financial year plus the next two financial years (i.e. to 2021/22). This provides some flexibility to borrow in advance where this is appropriate.

Table 4 highlights the Council's forecast gross borrowing position against the CFR and confirms that at 30 September 2019 the Council has complied with this prudential indicator as gross borrowing is currently within its CFR. The Council is currently under-borrowed by £66.681m due to the continuing strategy to delay long-term external borrowing by utilising internal cash balances.

TABLE 4

	2019/20 Original Estimate £m	2019/20 Revised Estimate £m	30 September 2019 Actual £m
Gross borrowing position **(Indicator 4)**	368.370	318.152	261.471
CFR	368.370	328.152	328.152
(Under)/Over Borrowed Position	-	**(10.000)**	**(66.681)**

As part of its Annual Treasury Management Strategy the Council sets limits for external borrowing which it is not normally expected to exceed. These limits are explained below.

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 is 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% of the Operational Boundary.

Table 5 demonstrates that between 1 April and 30 September 2019 the Council's gross borrowing was within both the operational boundary and its authorised limit, by a significant margin due to the continuing strategy to delay new external borrowing by utilising internal cash balances and changes in the capital programme and additional funding that have resulted in a reduced borrowing requirement.

TABLE 5

	Estimated £m	Revised £m
Average gross borrowing position 1 April to 30 September 2019		262.557
Maximum gross borrowing position 1 April to 30 September 2019		274.896
Operational boundary per Treasury Strategy 2019/20 (Indicator 5)	383.326	352.495
Authorised limit per Treasury Strategy 2019/20 (Indicator 6)	421.659	387.745

(d) Treasury Position at 30 September 2019 (Prudential Indicators 7 - 11)

The Council's debt and investment position is organised by the treasury management service to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within agreed parameters. Procedures and controls to achieve these objectives are well established through both Member reporting and the Council's Treasury Management Practices.

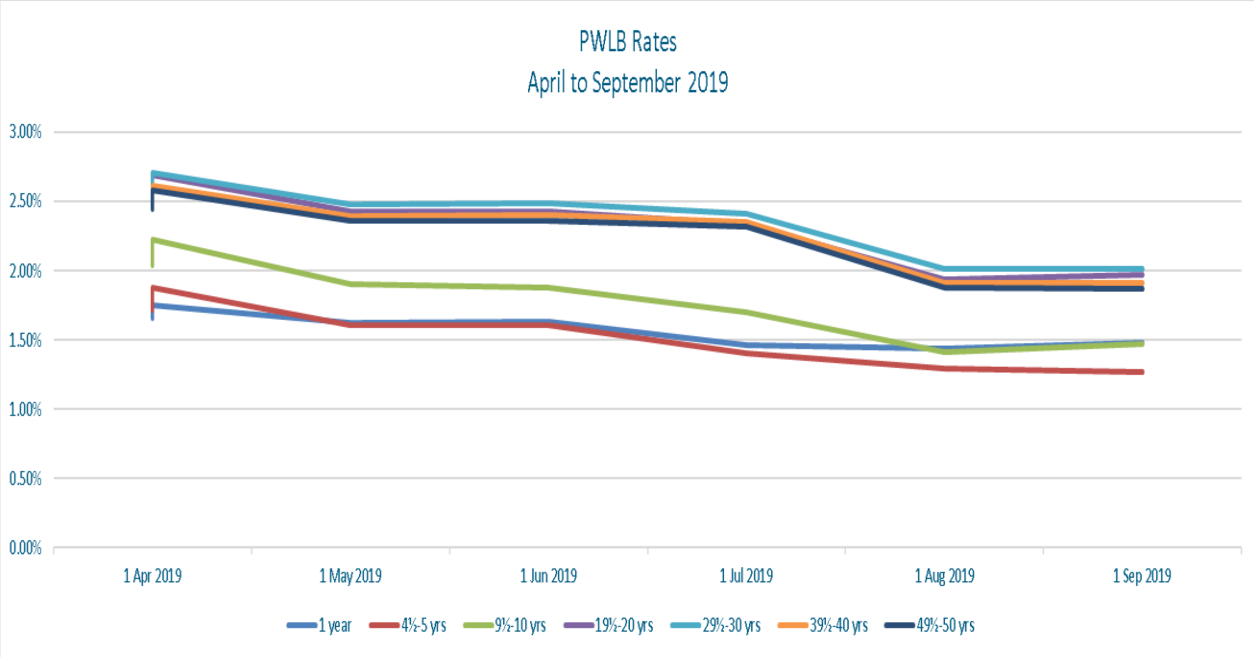
Borrowing Strategy for 2019/20

The Borrowing Strategy for 2019/20 anticipated a gradual rise in both bank interest rates and medium and longer term fixed borrowing rates during 2019/20. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period. Continued economic uncertainty has promoted a cautious approach, whereby investments continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

The UK economy continues to face a challenging outlook as the minority government continues to negotiate the country's exit from the European Union. A no-deal EU exit cannot be entirely ruled out for 2019/20. Central bank actions and geopolitical risks, such as prospective trade disputes, have and will continue to produce significant volatility in financial markets, including bond markets.

The following graph demonstrates that the general trend has seen a slight reduction in PWLB rates during the period April to September 2019.

However, it should be noted that on 9 October the treasury raised the margin that applies to new loans from the PWLB by one percentage point. The government will monitor the impact of this change and keep rates policy under review. The Council will also monitor the impact of this change and will review the strategy with regards to the balance of long term and short term borrowing and the utilisation of internal balances as appropriate.



Borrowing Position for 2019/20

To date in 2019/20, the Council has taken a combination of long term and temporary borrowing, including £20m PWLB borrowing, in recognition of the Councils longer term borrowing requirements and the market rates available at that time. Due to investment concerns, both in terms of counterparty risk and low returns on investment, the Council has also used internal short-term cash reserves to temporarily fund its capital borrowing requirement to 30 September 2019.

In terms of outlook for the remainder of the year, based on current capital plans and replacement borrowing requirements, it is estimated that the Council will borrow £103.989m this financial year, with a forecasted planned under borrowed position of £10.000m at the end of March 2020.

Rescheduling

No rescheduling has taken place between 1 April 2019 and 30 September 2019 as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

The Council's treasury position (excluding borrowing by PPP/NPD and finance leases) at the 31 March 2019 and 30 September 2019 was as follows:

TABLE 6

	31 March 2019 Principal £m	Rate/ Return %	30 September Principal £m	Rate/ Return %
Fixed rate funding:				
-PWLB	174.135	5.52%	183.053	4.88%
-Other Local Authorities	28.000	0.70%	24.586	0.69%
-Market	27.931	4.70%	1.882	6.80%
Variable rate funding:				
-Market	25.950	5.88%	51.950	5.22%
Total debt (Indicator 7)	256.016	4.94%	261.471	4.56%
CFR	293.271		328.152	
Over / (under) borrowing	(37.255)		(66.681)	
Investments:				
- internally managed	21.850	0.65%	24.650	0.79%
Total investments (Indicator 8)	21.850		24.650	

All investments at 30 September 2019 mature within one year in line with the Treasury Management and Investment Strategy **(Indicator 9)**.

The maturity structure of the debt portfolio **(Indicator 10)** at 30 September 2019 is shown below and shows the period when the Council is required to repay and/or refinance debt. It is important to ensure a reasonable spread of debt to mitigate against high exposure levels in respect of refinancing. The current profile ensures this:

TABLE 7

Maturity Profile of Borrowing (Indicator 10)	31 March 2019 Actual £m	30 September 2019 Actual £m
Under 12 months	66.908	59.864
12 months and within 24 months	16.091	20.099
24 months and within 5 years	3.205	0.365
5 years and within 10 years	11.469	6.369
10 years and within 20 years	24.830	24.512
20 years and within 30 years	-	29.750
30 years and within 40 years	103.513	103.512
40 years and within 50 years	20.000	7.000
50 years and above	10.000	10.000
Total Borrowing	**256.016**	**261.471**

The next indicator is used to manage risk and reduce the impact of adverse movement in interest rates. This sets a limit on the Council's exposure to fixed and variable interest rates **(Indicator 11).** The Council approved a limit on variable borrowing of £60.000m in the Treasury Management Strategy 2019/20.

TABLE 8

	2019/20 Original Limits £m	30 September 2019 Actual £m
Limits on fixed interest rates based on net debt **(Indicator 11)**	361.658	209.521
Limits on variable interest rates based on net debt **(Indicator 11)**	60.000	51.950

(e) Affordability Prudential Indicators (Prudential Indicator 12 - 14)

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.

The actual and estimates of the ratio of financing costs to net revenue stream indicator identifies the trend in the cost of capital (borrowing and other long-term liabilities net of investment income) against the net revenue stream.

TABLE 9

Estimate of ratio of financing costs to net revenue stream (Indicator 14)	2019/20 Original Estimate £m	2019/20 Revised Estimate £m
General Services	5.5%	5.1%
HRA	17.9%	16.9%

4. Investment Rates in 2019/20

The Bank Rate has remained at 0.75% during the period April to September. The Council's treasury advisers, Arlingclose, project that this rate will remain stable for the foreseeable future but there remains substantial risks to this forecast, dependant on outcomes associated with the UK's withdrawal from the EU and the evolution of the global economy.

5. Investment Position for 2019/20

Investment Policy

The Council's investment policy is governed by Scottish Government investment regulations, which have been implemented in the annual treasury management and investment strategy approved by the Council on 27 February 2019. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.).

All investments in 2019/20 have complied with our investment policy.

Resources

The Council's cash balances comprise revenue and capital resources and cash flow monies. The Council's cash resources at 30 September 2019 were as follows:

TABLE 10

Cash Balances	2019/20 Actual £m
1 April 2019	21.850
30 September 2019	24.650
Change within 6 months	**2.800**

Investments held by the Council

The Council has maintained an average balance of £24.355m of invested funds and utilised cash balances during the year in support of the under-borrowed position.

The Council's treasury management advisors, Arlingclose Limited, have six Scottish unitary authorities in their client group and provide regular investment benchmarking information to the Council. In terms of investment performance, North Ayrshire Council's average weighted rate of return on investments during the period 1 April 2019 to 30 September 2018 was 0.79% (0.48% for the period to 30 September 2018). The actual rate of return on investments as at 30 September for North Ayrshire Council was 0.76% compared to the group average rate of 0.78%.

The target investment rate for 2019/20 was 0.60% and the higher return secured this year to date by North Ayrshire Council reflects the increased diversification of the Councils investment portfolio to maximise return whilst minimising risk.

We will continue to invest with approved counterparties in accordance with the approved strategy.

6. Review of Loans Fund Advances

Under the Schedule 3 of the Local Authority (Scotland) Act 1975, the Council operates a Loans Fund with the purpose of undertaking borrowing in order to make advances to support capital expenditure and determining the annual repayment to be charged to the General Services and HRA revenue accounts.

At 31 March 2019, North Ayrshire Council's Loans Fund included outstanding advances of £282.025m, due to be repaid over the next 48 years, and projections for a further £261.342m of advances in support of the approved General Services and HRA capital programmes.

Regulatory Changes
The Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016 replaced the provisions under the 1975 Act with Section 14 of the Regulations stating that Councils may vary the period and/or amount of the repayments, if they consider it prudent to do so.

Resulting Action
Following consideration of the revised Regulations, a review of the current methodology has determined that, in line with the Council's existing policy, all current and future loans fund advances should be calculated using the Asset Life method, which aligns the repayment of advances to the Useful Economic Life (UEL) of the assets to be acquired, and should be calculated using an annuity rate linked to the average interest rate of borrowing undertaken by the Loans Fund, 5% p.a. at 31 March 2019.

Following a review of all existing Loans Fund advances, it has been determined that there are sufficiently detailed records on which to base a recalculation of advances made since 2008/09, with all advances made after this date being examined to determine the most appropriate UEL and then recalculated using the revised methodology detailed above.

Impact of the Resulting Actions

Although there is no change in the overall level of Loans Fund advances to be repaid, this will result in the reprofiling of the principal and interest payments based on the review of the UEL of the assets with a resulting increase in the interest calculations over the period of the advances of £2.820m by 2073/74 for the General fund and £5.652m by 2064/65 for the HRA. The recalculation has resulted in a number of movements over the remaining period of the current General Services Capital Programme and the equivalent period of the HRA capital programme.

Within the General Services Capital Programme the recalculation of payments will result in reduced annual repayments over the period to 2027/28 which will be offset by increased payments in later years. Similarly, within the HRA Capital programme, following an initial increase in annual repayments to 2020/21, there will be a reduction in annual repayments over the period to 2027/28 which will be offset by increased payments in later years

It should be noted that these projections are based on the current Capital Programmes as approved by Council. Any changes to the approved Programmes will impact on the movement.

Impact on the Medium Term Financial Plan

The anticipated reduction in Loan Charge Repayments over the medium term will eliminate the need for the budgeted drawdown of reserves from the Loans Fund Reserve and Capital Fund over this period, releasing £9.800m to the General Fund Unearmarked Balance. Proposals for the utilisation of these funds will be presented to Council as part of the Medium Term Financial Plan 2020/21 to 2022/23.

Within the HRA, following an initial increase, the reduction in Loan Charge Repayments will be reflected in a reduced requirement for prudential borrowing of £7.036m over the period to 2027/28.