

TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY

1. EXECUTIVE SUMMARY

- 1.1 The Council has adopted the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management in Local Authorities. A requirement of the Code is for an annual Treasury Management Strategy Statement and Investment Strategy to be approved by Council for the forthcoming financial year. This report seeks Members approval of the proposed Treasury Management Strategy Statement and Annual Investment Strategy. The report also sets out the policy for the repayment of loans fund advances for 2018-19.
- 1.2 The draft Treasury Management Strategy Statement and Annual Investment Strategy will be presented to the:
- Policy and Resources Committee on 15 February 2018
 - Council on 22 February 2018
 - Audit and Scrutiny Committee on 20 March 2018
 - If required, Council on 26 April, following recommendations from the Audit and Scrutiny Committee that need approval from Council.
- 1.3 The Council uses Link Asset Services (previously known as Capita) as its external treasury management advisors. The Council recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.
- 1.4 Section 2 of the attached document outlines the Council's Capital Prudential and Treasury Indicators and Members are asked to approve the indicators.
- 1.5 Section 2.5 notes that in 2016 new regulations were enacted by the Scottish Parliament, the Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016, under which the Council is required to set out its policy for the statutory repayment of loans fund advances prior to the start of the financial year. The policy on repayment of loans fund advances in respect of capital expenditure by the Council is to ensure that the Council makes a prudent provision each year to pay off an element of the accumulated loans fund advances made in previous financial years.
- 1.6 A variety of options are provided to Councils so long as a prudent provision is made each year. The Council is recommended to approve Option 1 and Option 4 from the options for the repayment of loans fund advances. Detail and implications on each option are outlined within the table below.

Option	Description	Implications
Option 1 – Statutory Method	Loans fund advances will be repaid in equal instalments of principal by the annuity method. The Council is permitted to use this option for a transitional period only, of five years until 31st March 2021, at which time it must change its policy to use alternative approaches based on depreciation, asset life periods or a funding/income profile	This is the current method for repaying advances and is the most predictable for setting budgets.
Option 2 – Depreciation Method	annual repayment of loans fund advances will follow standard depreciation accounting procedures	The repayments are matched to the depreciation charges which means that if the asset was impaired the Council would need to repay an equivalent amount of the outstanding debt, rather than continuing with the scheduled repayments.
Option 3 – Asset life method	Loans fund advances will be repaid with reference to the life of an asset using either the equal instalment or annuity method	Similar to the depreciation method if the asset life was shortened then the payments would need to be accelerated
Option 4 – Funding/Income profile method	loans fund advances will be repaid by reference to an associated income stream	Under this methodology the repayment of debt is matched to the income stream from the asset which is suited to spend to save scheme and assets which generate income which is being used to repay the debt outstanding.

- 1.7 Section 3 of the document outlines the current actual external debt against the capital financing requirement highlighting any over or under borrowing. There is information on the interest rates projections and the borrowing strategy.
- 1.8 Section 4 of the document outlines the annual investment strategy. The Council's investment priorities will be security first, liquidity second and then return. It explains MiFID II that became effective on 3 January 2018 and explains the creditworthiness policy and the use of Link Asset Services in this respect as well as the Country and Sector limits.
- 1.9 There are a number of appendices in Section 5. Some of this information has been provided by our Treasury advisors, Link Asset Services.

2. RECOMMENDATIONS

2.1 It is recommended that the Council:

- a) Approve the proposed Treasury Management Strategy Statement and Annual Investment Strategy and the indicators contained within.
- b) Approve the use of Option 1 (statutory method) for the repayment of loan fund advances in respect of existing capital expenditure and new advances up to 31 March 2021 at an interest rate of 4.423%, with the exception of spend to save schemes where Option 4 (funding/income profile method) will be used.
- c) Approve the ability to continue to use countries with a sovereign rating of AA- and above, as recommended by Link Asset Services.

3. IMPLICATIONS

3.1 Policy – Sets the policy for borrowing and investment decisions.

3.2 Financial - There are no direct financial implications arising from the recommendations in this report. An effective Treasury Management Strategy does however form a significant part of the Council's financial arrangements and its financial well-being.

3.3 Legal - None.

3.4 HR - None.

3.5 Equalities - None.

3.6 Risk - This report does not require any specific risk issues to be addressed, however members will be aware that the management of risk is an integral part of the Council's treasury management activities.

3.7 Customer Service - None.

Kirsty Flanagan
Head of Strategic Finance
2 February 2018

Policy Lead for Strategic Finance and Capital Regeneration Projects:
Councillor Gary Mulvaney

For further information please contact Peter Cupples. Finance Manager
Corporate Support 01546-604183.

APPENDICES

Appendix 1 – Treasury Management Strategy Statement and Annual Investment Strategy 2018-19