Midlothian

Audit Committee
Tuesday 25 January 2022
Item No:5.1

Treasury Management and Investment Strategy 2022/23 & Prudential Indicators

Report for Decision

1 Recommendations

The Audit Committee is invited to comment on this report before it is presented to Council. In particular, Audit Committee should note the following recommendations which are proposed to be put to Council on 15 February 2022:-

a) Note that there are no changes proposed to the Treasury Management and Investment Strategy (TMIS) for 2022/23 from the strategy currently in place, other than to update the Prudential Indicators (the three key prudential indicators relating to external borrowing as outlined in Section 4, and the remaining indicators as outlined in Appendix 2), to reflect the revised capital plans;

b) Note the retention of the current approach for the repayment of loans fund advances; and

c) Accordingly approve the Treasury Management and Investment Strategy for 2022/23.

2 Purpose of Report/Executive Summary

In accordance with the Treasury Management Code of Practice, the annual Treasury Management & Investment Strategy (TMIS) & Prudential Indicators report is required to be adequately scrutinised before being recommended to the Council. For Midlothian, this role is undertaken by the Audit Committee, with this report being presented to Audit Committee on 25 January 2022 prior to consideration by Council on 15 February 2022.

The purpose of the report to Council will be to provide an update on the implementation of the Council's TMIS 2021/22, and to make recommendations to facilitate consideration of the 2022/23 Strategy, specifically the TMIS for 2022/23, the 2021 update to the Prudential and Treasury Management Codes, the Prudential and Treasury indicators contained therein, and the approach to the statutory repayment of loans fund advances.

Any revisions arising from Audit Committee consideration of the report on 25 January 2022 will be incorporated into the final version of the report to Council on 15 February 2022.

Date: 13 January 2022

Report Contact:
Gary Fairley, Chief Officer Corporate Solutions
gary.fairley@midlothian.gov.uk **0131 271 3110**

3. Update on implementation of TMIS for 2021/22

3.1 Current Borrowing and Deposit Portfolio

3.1.1 Borrowing

The Council's borrowing position as set out in the 2021/22 Treasury Management Mid-Year Review Report was £274.795 million at 31 March 2021, and six months later was £273.701 million on 30 September 2021.

The principle source of borrowing is the UK Debt Management Office's Public Works Loans Board (PWLB) and fixed rate loans are taken at a time and tenure which takes cognisance of the PWLB rates (derived from the UK Gilts market) and the management of maturity risk in the long term across the Council's loan portfolio.

The Council does not borrow from PWLB to onward lend. The TMIS provides for capital investment to be underpinned by long-term borrowing, recognising the extremely low interest rate environment, the significant borrowing requirement arising from the Council's capital plans, and the long term benefits of de risking the delivery and affordability of these capital plans by locking into the certainty brought by PWLB fixed rate loans.

Market conditions in early December 2021 supported action to secure further long-term borrowing. The Council, on 9 December 2021, borrowed £50.000 million from PWLB (loan start date 16 December 2021) as shown in table 1 below. This action secured c. 20% of the Council's million medium-term borrowing requirement (see Table 3) at historically low PWLB rates, reducing the weighted average interest rate of borrowing and with tenors which manage the refinancing risk in the long term.

Table 1: PWLB Borrowing Undertaken on 16 December 2021

Loan Value (£000's)	Loan Type	Start Date	Maturity Date	Tenor (years)	Interest Rate
10,000	Maturity	16 Dec 2021	16 Dec 2071	50	1.26%
10,000	Maturity	16 Dec 2021	16 Dec 2070	49	1.27%
10,000	Maturity	16 Dec 2021	16 Dec 2067	46	1.30%
10,000	Maturity	16 Dec 2021	16 Dec 2064	43	1.34%
10,000	Maturity	16 Dec 2021	16 Dec 2063	42	1.36%
50,000	**Weighted Average**			**46**	**1.31%**

The initial cost of carry from borrowing on 16 December 2021 was justified; had the Council deferred borrowing the £50.000 million until 2022/23, the overall additional net cash cost to the Council over the life of the loans is predicted to have been £13.284 million, based on the forecast PWLB borrowing rates for 2022/23 of between 1.80% and 1.90%.

Furthermore, as an example of the effectiveness of this strategy, were the Council to have borrowed £50.000 million on 7 January 2022, the equivalent PWLB borrowing rates for the same loan tenors as noted in

Table 1 above were between 1.82% and 1.91%. This would have resulted in a net additional cash cost to the Council over the life of the loans of £12.795 million.

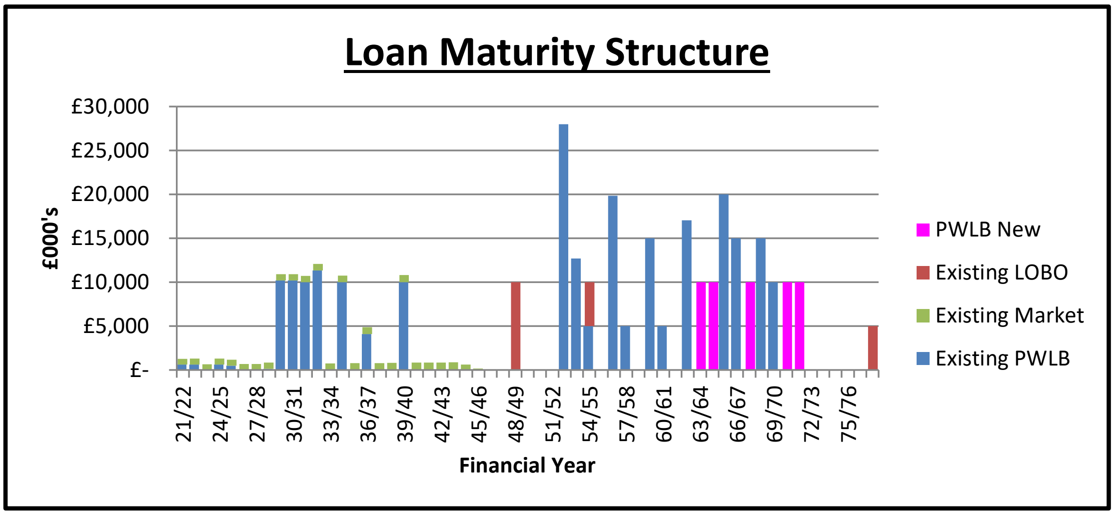
The provisions of the approved TMIS for 2021/22 have allowed Council officers to make time critical operational decisions – in line with the policy – that continue to secure best value in funding capital investment in the Council's asset base.

The Council's loan portfolio, as at 7 January 2022, is shown in table 2 below:-

Table 2: Current Loan Portfolio as at 7 January 2022

Loan Type	Principal Outstanding £000's	Weighted Average Rate
PWLB Annuity	523	8.91%
PWLB Maturity	284,776	2.70%
LOBO	20,000	4.51%
Market Loans	17,721	2.68%
Salix Loans	400	0.00%
Total Loans	**323,450**	**2.81%**

The repayment profile of this debt is shown in graphical and tabular form below:-



Financial Year	2021/22 Remaining £000's	2022/23-2025/26 £000's	2026/27-2030/31 £000's	2031/32-2035/36 £000's	2036/37+ £000's
Debt Maturing	180	5,035	23,923	37,203	257,109
% of total portfolio	0.06%	1.56%	7.40%	11.50%	79.49%

As can be noted in the graph and table above, proactive Treasury Management by the Council in the last decade has placed the Council in an extremely strong refinancing position for its existing external debt portfolio, with only £5.215 million, or just 1.61%, of the Council's total Loan Portfolio of £323.450 million requiring refinancing over the current and forthcoming four financial years. This extremely low short-term exposure to refinancing risk has put the Council in a strong position to plan its new borrowings in advance, take advantage of any dips in longer-term borrowing rates from PWLB (as demonstrated above) and other sources, and maintain a low weighted average coupon rate on external debt.

3.1.2 Deposits

The Council's position for funds on deposit fluctuates on a daily basis, with the 2021/22 Treasury Management Mid-Year Review Report setting out the position at 31 March 2021 of £131.273 million and six months later on 30 September 2021, at £137.590 million.

The position at 7 January 2022, as set out in Table 3 below, totals £165.130 million.

Table 3: Current Deposits as at 7 January 2022

Investment Type	**Principal Outstanding £000's**	**Weighted Average Rate**
Bank Call Accounts	17,226	0.05%
Money Market Funds	37,919	0.04%
Bank Notice Accounts	14,985	0.58%
Bank Fixed Term Deposits	35,000	0.41%
Other Local Authorities	60,000	1.62%
Total Investments	**165,130**	**0.74%**

The movement is two-fold:

- Following the Council's £50.000 million borrowing from PWLB on 16 December 2021 as outlined in Section 3.1.1 above, fixed term deposits with strong creditworthy bank counterparties totalling £35.000 million have been placed, prior to the expected application of the PWLB loan funds to finance capital expenditure in financial year 2022/23;
- Movement in the bank call accounts and money market funds which are used for day to day liquidity to meet cashflow requirements. The amount held in instant access accounts (£55.145 million as at 7 January 2022) is reflective of (a) the Scottish Government providing upfront funding to local authorities to support a range of grant schemes; (b) advanced Revenue Support Grant payments and Early Years Capital Grant payments in 2021/22; (c) the impact of Covid on the Council's cashflow due to rephasing of capital expenditure plans; (d) the receipt of developer contributions from sites across the County, towards new school, community, road and other infrastructure; and (d) the holding of the remaining £15.000 million PWLB funds prior to the expected application of these funds to capital expenditure in early 2022/23

A full list of deposits placed by the Council at 7 January 2022 is set out in the Treasury Management & Annual Investment Strategy Statement – 2022/23 Detailed in Appendix 4, Section 4.4.

3.2 Borrowing Requirement 2021/22 to 2025/26

The Council's capital plans contain projections of capital expenditure and income over the forthcoming financial years. Any expenditure not financed directly by income, requires funding through borrowing.

The projected borrowing requirement arising from the Council's Capital Plans, the MEL Shareholder Injection, and the maturing long-term loans that require to be refinanced, over the period 2021/22 to 2025/26 is shown in table 4:-

Table 4: Total Borrowing Requirement over the period 2021/22 to 2025/26

	2021/22 £000's	2022/23 £000's	2023/24 £000's	2024/25 £000's	2025/26 £000's	Total £000's
Capital Expenditure						
General Services	39,828	56,678	58,556	52,823	28,078	**235,963**
HRA	35,930	82,868	72,346	46,021	12,321	**249,486**
Total Capital Expenditure	**75,758**	**139,546**	**130,902**	**98,844**	**40,399**	**485,449**
Total Available Financing	-46,502	-45,837	-45,303	-24,043	-12,563	**-174,248**
Principal Debt Repayments	-9,123	-9,594	-10,781	-11,870	-12,711	**-54,079**
Capital Expenditure less available Financing	**20,133**	**84,115**	**74,818**	**62,931**	**15,125**	**257,122**
MEL Shareholder Injection	1,190	320	4,810	3,870	0	**10,190**
Maturing Long-term Loans	1,524	1,465	830	1,531	1,263	**6,613**
Total Borrowing Requirement	**22,847**	**85,900**	**80,458**	**68,332**	**16,388**	**273,925**
Borrowing secured	-50,000	0	0	0	0	**-50,000**
Total Remaining Borrowing Requirement	**-27,153**	**85,900**	**80,458**	**68,332**	**16,388**	**223,925**

3.3 Main Objectives of TMIS 2022/23

No material changes are proposed to the current TMIS which was scrutinised by Audit Committee in January 2021 and approved by Council in February 2021. The objectives of the current and proposed TMIS are:-

- To secure long-term borrowing to fund capital investment, through locking in to historically low long-term interest rates and de-risking the Council's Capital Financing Requirement (CFR);

- To ensure short-term liquidity to manage its day-to-day cashflow. This is achieved through the utilisation of instant access Money Market Fund and Bank Accounts, with the amount held in these reflecting the Council's level of working capital and fluctuating throughout the year due to a number of factors;

- To cash back the Council's usable reserves.

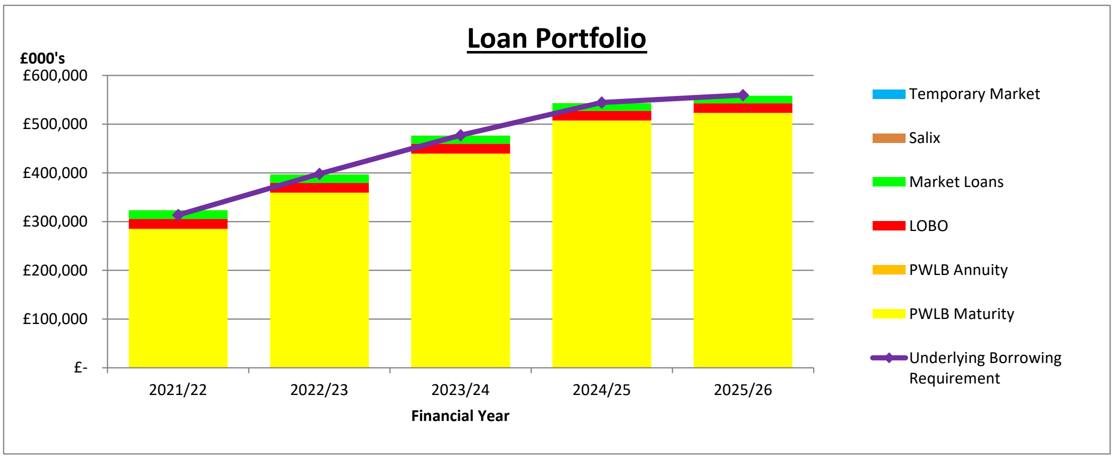
Similarly no changes are recommended to the Permitted Investments, though members should note that reflecting the decision of Council on 14 December 2021 there is a technical adjustment to the maximum level of investment in the Midlothian Energy Limited Joint Venture Energy Services Company (ESCO) to £10.190 million to reflect the decision of 14 December 2021.

More detail on the borrowing and investment strategy for 2022/23 is provided in Sections 3.4 and 3.5 below. Section 4 updates the Prudential Indicators based on the latest Capital Plans, and Section 5 notes no change to the Council's policy for the repayment of loans fund advances from that scrutinised by Audit Committee in January 2021 and approved by Council in February 2021.

3.4 Borrowing Strategy for remainder of 2021/22 and 2022/23

Borrowing is undertaken to finance the Council's approved Capital plans and to do so in the most cost effective way. As can been noted from Table 4 above the Council has a significant borrowing requirement across the current and forthcoming four financial years (2021/22 to 2025/26).

The Council's projected loan portfolio over the period 2021/22 to 2025/26 is shown in graphical format below.



The Council has fully funded its current, and part of its 2022/23, borrowing requirement in a prudent way which balances (a) de-risking the longer term borrowing requirement at historically low longer term borrowing rates; against (b) the current year and forthcoming financial year budget projections.

Long-term PWLB borrowing rates for both HRA and non-HRA purposes have been at historically low levels and significantly below historical averages, with an expected gradual upward trend in these levels across the remainder of financial year 2021/22 and into 2022/23.

The Bank of England's Monetary Policy Committee raised base rate from 0.10% to 0.25% at their meeting on 16 December 2021. There are further rises forecast to base rate in Quarter 4 of 2022 (to 0.50%)

Quarter 1 of 2023 (to 0.75%), Quarter 1 of 2024 (to 1.00%) and finally, Quarter 1 of 2025, which would take the base rate to 1.25%.

With this in mind, utilisation of an element of temporary borrowing – which typically tracks close to base rate levels – within the Council's overall loan portfolio may continue to provide a cost-effective solution to the Council. The quantum of this will continue to be assessed against the backdrop of potential long term costs if the opportunity is missed to take PWLB or other market loans at historically low medium-long term rates, particularly given the projected gradual rise in PWLB rates.

The opportunity also continues to exist to consider further loans on a 'forward dealing' basis, and officers will continue to explore the viability of these loans as part of securing the long term borrowing required to meet the capital financing requirements.

Given the potential for uncertainty in the market to bring a dip in gilt yields and therefore PWLB rates, there may be further opportunities for further long term borrowing to be undertaken in financial year 2021/22 and into early 2022/23 to fund the Council's £224million remaining medium term borrowing requirement to 2025/26 as outlined in Table 4 above. Any further borrowing drawn would be supported by a business case which will appraise the anticipated savings in borrowing costs (from expected increases in rates later in the year / in forthcoming years) against the carrying cost associated with borrowing in advance of need.

Officers will continue to ensure that any loans taken are drawn to match the existing maturity and projected capital expenditure profiles as closely as possible, that proposed interest rates continue to sit below forward interest rate projections, and that the overall borrowing remains within the Authorised Limit proposed below.

3.5 Investment Strategy for remainder of 2021/22 and 2022/23

No changes are proposed to the Investment Strategy from that approved by Council in the 2021/22 TMIS.

Council should note that in parallel to securing its external borrowing to finance the capital financing requirement, the strategy means that Council should continue to cash back the Council's useable reserves. In doing so, the Council are able to continue to minimise – or eliminate – the extent of under-borrowing and at the same time de-risk the Council's forward borrowing requirement; whilst also ensuring that all deposits are securely placed with high creditworthy counterparties, complying with the CIPFA Treasury Management Code principles of security, liquidity and then yield – in that order.

This ensures that all deposits are placed with high creditworthy counterparties, with a tenor reflective of the expected drawdown of reserve forecasts, and at a yield commensurate with this. The Council's current deposit portfolio is broadly reflective of the wider UK

Local Authority position, as noted in the table in Section 4.4 of Appendix 4.

The list of Permitted Investments in Appendix 1 also remains unchanged from that approved by Council in the 2021/22 TMIS, other than a technical change to reflect the value of the Council's investment in the Midlothian Energy Limited as referenced earlier.

4 CIPFA Codes & Prudential Indicators

4.1 CIPFA Codes

CIPFA, on 20 December 2021, released the new editions of the Treasury Management Code and Prudential Code.

The main areas that have been updated are summarised in the sections below.

It was proposed to bring forward the full suite of Treasury Management Practices (TMPs) (in full) alongside the TMIS to give AC today the opportunity to scrutinise and endorse these. Given the December release of the new Codes, and the significant work required to update local TMPs, the full suite of revised TMPs will be presented to AC at the earliest opportunity.

<u>Treasury Management Code</u>

1. **TMP1 Credit and Counterparty Risk Management** – requirement to refer to Environmental, Social and Governance (ESG) in credit and counterparty policies – with emphasis on counterparty governance (and link across to principles of security, liquidity and yield in that order) remaining paramount. This will be reflected in the revised TMPs;

2. **TMP6 Reporting Requirements & Management Information Arrangements** – requirement that any further investment indicators required by statutory legislation or regulation be reported by Local Authorities as and when they become implemented into statute/regulation. This will be reflected in the revised TMPs;

3. **TMP10 Training & Qualifications: Knowledge and Skills** – strengthened to include a requirement to retain a knowledge and skills register of elected members and employees that includes a training schedule outlining the aims and objectives of training and the expected level of expertise required. This will be reflected in the revised TMPs;

4. **Clear statement in line with Prudential Code** that "Local authorities must not borrow to invest for the primary purpose of financial return." Midlothian Council does not and has not borrowed to invest primarily for financial return.

5. **Revised definition of Investments** that requires Local Authorities to clearly identify and report the following categories of Investment:-

    - Treasury Management Investments;
    - Service Investments; and
    - Commercial Investments (including Commercial Property).

    with the former covered within updated Treasury Management Practices (TMPs) and the latter two in new Investment Management Practices (IMPs).

    These new IMPs are required to follow a similar format to the TMPs used for Treasury Management Investments, clearly setting out the investment objectives, criteria, risk management, performance measurement & management, reporting arrangements and ongoing training requirements associated with Service & Commercial Investments.

6. **TMP8 Cash & Cashflow Management**: A new Treasury Management Indicator – the “Liability Benchmark” is required which identifies future borrowing needs against the maturity profile of the Council’s existing loan portfolio.

    At the time of writing, further clarity is needed in the CIPFA Treasury Management: Guidance Note regarding the calculation of this.

7. **TMP6 Reporting Requirements** – retention of the existing Treasury Management reporting frequency, which is a minimum of: (a) an annual Strategy report in advance of the forthcoming financial year; (b) a Mid-Year Review report; and (c) An Annual Outturn report after the year-end.

<u>Prudential Code</u>

1. **Prudence**: The Code expands on the detail both of what it considers to be legitimate examples prudence in borrowing and investment, and which acts are not considered to be prudent activity for a Local Authority.

    Legitimate examples of prudent borrowing include financing of capital expenditure primarily related to the delivery of a local authority’s functions, temporary management of cashflow within the context of a balanced budget, securing affordability by removing exposure to future interest rate rises, or refinancing current borrowing, including replacing internal borrowing, to manage risk or reflect changing cash flow circumstances.

    A key concern for CIPFA continues to be regarding leverage and borrowing to invest particularly for Commercial and Service Investment – with a clear statement in the Prudential Code that it is "*not prudent to make any investment or spending decision that will increase the capital financing requirement, and so lead to new borrowing, unless directly and primarily related to the functions of the authority and where any financial returns are either related to the financial viability of the project in question or otherwise incidental to the primary purpose*".

2. **Annual Strategy Review regarding divesting Commercial Investments (including Commercial Property)** – the Prudential Code makes it clear that a Local Authority's existing commercial investments will not be required to be sold or immediately divested under the provisions of the new Prudential Code.

   However, where a Local Authority has an expected need to borrow, the Local Authority should review options for exiting their financial investments for commercial purposes in their annual treasury management or investment strategies.

   The options should include using the sale proceeds to repay debt or reduce new borrowing requirements. They should not take new borrowing if financial investments for commercial purposes can reasonably be realised instead, based on a financial appraisal which takes account of financial implications and risk reduction benefits;.

3. **Objectives of the Prudential Code** – updated to cover the following new objectives:

   - Capital plans and investment plans are affordable and proportionate with this based on the judgement of the S95 officer, based on the size and aims of the organisation;
   - All external borrowing/other long-term liabilities are within prudent and sustainable levels. This is already encompassed in the TMIS; and
   - Risks associated with investments for commercial purposes are proportionate to a Local Authority's overall financial capacity i.e. that plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services and/or the level of resources available to an organisation. Not applicable for Midlothian Council.

4. **Revised definition of Investments** as covered in Treasury Management Code Item 5 above [shared definition between TM and Prudential Codes];

5. **ESG in Capital Strategy** – requirements of Capital Strategy in Prudential Code broadened, to make clear the Capital Strategy must address environmental sustainability in a manner which is consistent with Councils' own corporate policies on the issue.

This will encompass the work already being undertaken to meet the Council's commitment to achieving Net Zero by 2030, including the requirements for Passivhaus technology, greater emphasis on active travel and connecting with public transport proposals, and the greater importance on the need for high quality green and blue infrastructure to address issues such as biodiversity and surface water management;

6. **Capital Financing Requirement** – Gross Debt and the Capital Financing Requirement remain a key indicator (see Appendix 2, Section 3.1). Furthermore, the calculation of the Capital Financing Requirement (CFR) must include Heritage Assets. Midlothian Council already include Heritage Assets within the calculation of the CFR;

7. **Reporting & Monitoring of Prudential Indicators**: A requirement for the reporting and monitoring of Prudential Indicators to be provided to Council on at least a quarterly basis;

8. **Inclusion of new Prudential Indicator for Affordability**: Net Income from Service & Commercial Investments as a proportion of the Net Revenue Stream – see Appendix 2, Section 1.3;

9. **Clear statement as also noted in the TM Code** that "Local Authorities must not borrow to invest primarily for financial return." Midlothian Council does not and has not borrowed to invest primarily for financial return;

10. **Long-Term Treasury Investments**: CIPFA leaves any decision to maintain long term Treasury Investment to each Authority/S95 officer to justify (assumption being that these are not borrowed for) and any longer term Treasury Investment to be linked to Business Model (e.g. a link to cash flow management or treasury risk management).

CIPFA expect Local Authorities to integrate the requirements of the new Treasury Management and Prudential Codes, and the Treasury Management Guidance Note, into their decision-making, monitoring and management.

CIPFA make it clear that the new 2021 Prudential Code applies with immediate effect but that Local Authorities can defer the reporting requirement until the 2023/24 financial year.

CIPFA also make it clear that the new 2021 Treasury Management Code is a "soft launch" with formal adoption and reporting to be required from the 2023/24 financial year. The Treasury Management: Guidance Note which accompanies the Treasury Management Code is expected to be published by CIPFA at the end of January 2022, and is expected to include further detail on the TMPs, IMPs, and calculation and presentation of the new Treasury Management Indicator for the Liability Benchmark.

It is therefore proposed that the implementation of the Codes for Midlothian Council is as follows:-

- Following publication of CIPFA's Treasury Management Guidance Note for Local Authorities, Council officers will update the existing Treasury Management Practices (TMPs), along with development of the new Investment Management Practices (IMPs), to reflect the full requirements of the new Treasury Management [and Prudential] Codes, and bring these back to Audit Committee for scrutiny at the earliest available opportunity.

- The reporting requirements of the Prudential Code requires that the Section 95 officer establish procedures to monitor and report Prudential Indicators on a quarterly basis.

  These are already currently reported to Council as part of the Treasury Strategy, Treasury Mid-Year Review, and Annual Treasury Outturn reports.

  It is proposed that from the 2022/23 financial year, these are reported to Council as part of the current quarterly financial reporting arrangements.

- Officers will incorporate the new Environmental & Sustainability provisions of the Prudential Code in the next update of the Capital Strategy.

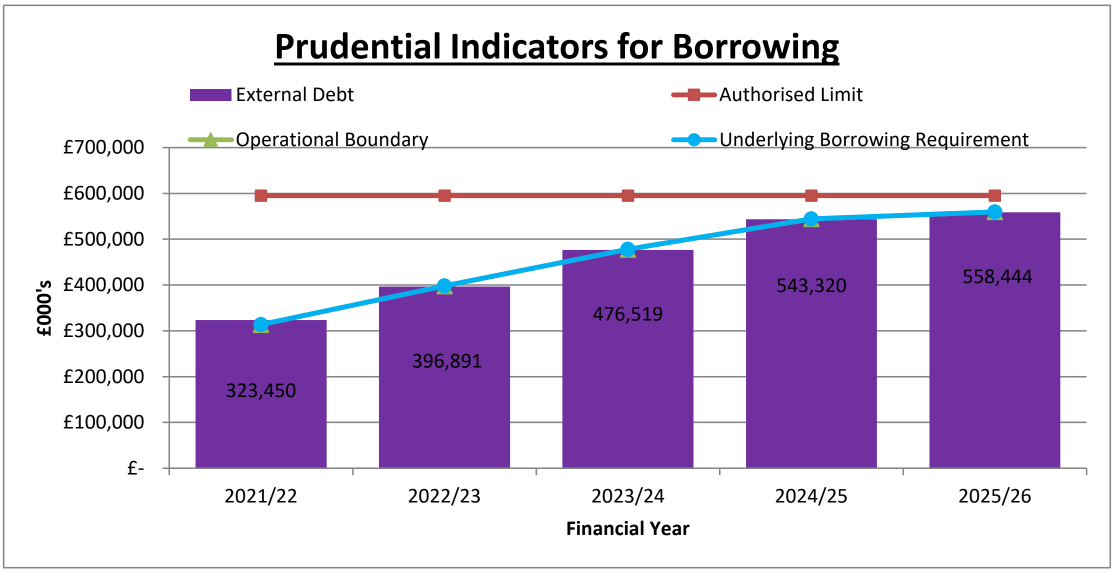
4.2 Prudential Indicators – Midlothian Council

The Prudential Code for Capital Finance in Local Authorities requires that Councils can demonstrate that their Capital Plans are affordable, prudent and sustainable, taking into account the financial provisions made in current and future revenue budgets; and that Treasury Management decisions are taken in accordance with good practice.

The Prudential Indicators that Councils need to consider relate to both actual, historic outcomes, and future estimated outcomes (covering the same period as the Council's Capital Plans), as follows:-

- Actual outcomes for 2020/21;
- Revised estimates of the 2021/22 indicators; and
- Estimates of indicators for 2022/23 to 2025/26.

The Prudential Indicators required by the Code are listed individually in Appendix 2. The key indicators relating to external borrowing are shown in graphical format below.



The **Capital Financing Requirement (CFR)** denotes the Council's underlying need to borrow for capital purposes. The CFR includes borrowing arising as a result of the Council's Capital Plans, plus the long-term liability arising from the Council's two PPP contracts. The **Underlying Borrowing Requirement** strips out the latter of these (long-term liability arising from the two PPP contracts) from the CFR.

The **Authorised Limit for Borrowing** represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It is the expected maximum borrowing need with some headroom for unexpected movements.

The Authorised Limit for Borrowing has been calculated by taking the maximum value of the CFR over this year and the next 4 financial years (2022/23 to 2025/26), with the total forecast level of unrealised capital receipts and developer contributions added back to this figure (given the inherent uncertainty regarding the timing and value of these receipts/contributions). This is shown in table 5 below.

Table 5: Authorised Limit for Borrowing: Calculation

Authorised Limit	**Amount £000's**
CFR – General Services (31 March 2026)	231,168
CFR – HRA (31 March 2026)	328,466
Forecast Capital Receipts & Developer Contributions 21/22 to 25/26	35,422
Proposed Authorised Limit	**595,056**

Council is therefore asked to approve an authorised limit for borrowing of £595.056 million, if market conditions support this action. This would have the effect of securing lower costs for future years but care would be taken to ensure that the cost of carry from borrowing early is minimised and that the maturity structure of all debt is sufficiently robust to ensure that the CFR at 31 March 2026 remains achievable.

The authorised limit therefore reflects a level of borrowing which, while not desired, could be afforded but is not sustainable.

5 Statutory repayment of loans fund advances

Under the Local Government Finance Circular 7/2016, Council is now required to set out its policy for the statutory repayment of loans fund advances prior to the start of each financial year. The repayment of loans fund advances ensures that the Council makes a prudent provision each year to pay off an element of the accumulated loans fund advances made in previous financial years.

The TMIS retains the methodology adopted in 2021/22 – that is as follows:-

5.1 New Assets

In accordance with Finance Circular 7/2016, for all advances made in relation to the provision of a new asset, the policy will be to defer the commencement of the first principal repayment of the loans fund advance until the financial year following the one in which the asset is first available for use.

5.2 Prudent Repayment of Loans Fund Advances

Finance Circular 7/2016 provides a variety of options to Councils for the profiling of the repayment of each loans fund advance, so long as the principle of prudence is maintained. There are 4 options available: (a) Asset Life method; (b) Statutory method; (c) Depreciation method; and (d) Funding/income profile method.

In line with the policy adopted in 2021/22, the Asset Life method shall be used for those assets in Table 6.

Table 6: Asset Classes to adopt the "Asset Life" method

Infrastructure	**Current Loans Fund Advance Period***	**Proposed Loans Fund Advance Period**
New Primary Schools/Extensions	50	60
New Leisure Centres	39	60
New Offices	25	60
Road Upgrades	29	50
Street Lighting Columns	26	50
Structures/Bridges	26	50
Footway/Cyclepaths	30	50
Town Centre Environmental Improvements	20	50
New Care Homes	33	45
Children's Play Equipment	9	20

* *Average loans fund advance length*

The annual repayments under the "Asset Life" method for those asset classes as noted above will be calculated using the asset lives and will use the annuity method, to ensure consistency of approach with the Statutory method for all other asset classes (see below). The annuity interest rate that will be used to calculate loans fund principal repayments under the “Asset Life” method will be the in-year loans fund rate, which for 2021/22 is currently estimated to be 2.86%.

For all other asset classes, the policy will be to maintain the practice of previous years and apply what is termed “the Statutory Method” – following the principles of Schedule 3 of the Local Government (Scotland) Act 1975 – with all loans fund advances being repaid by the annuity method. The annuity rate that is proposed to be applied to the loans fund repayments varies will be the in-year loans fund rate, reflecting the Council’s current loan and investment portfolio. The loans fund rate for 2021/22 is forecast to be 2.86%

Whilst neither the Depreciation nor the Funding/income profile methods are currently proposed, Council officers will continue to monitor whether it is appropriate to use this for future capital projects.

6 Performance Indicators 2020/21 – comparison with other Scottish Local Authorities

The Treasury Management Forum collates performance indicators for all Scottish Local Authorities. The indicators relating to financial year 2020/21 have been published and once again demonstrate the continuing effectiveness of the Council’s Treasury function in maximising efficiency in Treasury Management activity, with the Council having the 5th lowest weighted average borrowing & investment (loans fund) rate across all Scottish mainland authorities in 2020/21. The Council has consistently maintained the loans fund rate as one of the lowest across all Scottish mainland authorities for the last decade and more. Appendix 3 outlines the loans fund rate for each Scottish Local Authority in 2020/21.

Were the internal loans fund rate to have equated to the Scottish weighted average of 3.55%, this would have generated loan charges in 2020/21 of £17.9m. The Council’s actual 2020/21 loan charges for General Services and HRA were £16.5m, representing a cash saving (compared to the Scotland average) of £1.4m in 2020/21.

7. Report Implications

7.1 Resource

There are no direct resource implications arising from this report.

7.2 Digital

None

7.3 Risk

The strategies outlined in this report are designed to maintain the effectiveness of the overall risk management arrangements for Treasury activity. Providing the limits outlined in the strategies are observed they will support the controls already in place in the Treasury Management Practices within which the treasury function operates.

The Prudential Indicators contained in Appendix 2 maintain the effectiveness of the overall risk management of Capital Investment and Treasury Management.

7.4 Ensuring Equalities

There are no equality issues arising from this report.

7.5 Additional Report Implications

See Appendix A.

Appendix A: Report Implications

A.1 Key Priorities within the Single Midlothian Plan

Not applicable.

A.2 Key Drivers for Change

A.3 Key Delivery Streams

Themes addressed in this report:

☐ One Council Working with you, for you
☒ Preventative and Sustainable
☐ Efficient and Modern
☐ Innovative and Ambitious
☐ None of the above

A.4 Delivering Best Value

The report does not directly impact on Delivering Best Value.

A.5 Involving Communities and Other Stakeholders

Although no external consultation has taken place, cognisance has been taken of professional advice obtained from Link Asset Services, the Council's appointed Treasury Consultants.

A.6 Impact on Performance and Outcomes

The strategies to be adopted are an integral part of the corporate aim to achieve Best Value as they seek to minimise the cost of borrowing by exercising prudent debt management and investment. This in turn helps to ensure that the Council's capital expenditure is sustainable in revenue terms.

A.7 Adopting a Preventative Approach

Not applicable.

A.8 Supporting Sustainable Development

Not applicable

Background Papers:-
Appendix 1:- Permitted Investments
Appendix 2:- Prudential Indicators
Appendix 3: Performance Indicators 2020/21
Appendix 4:- Treasury Management & Annual Investment Strategy Statement – 2022/23 Detailed