

**REPORT TO: POLICY AND RESOURCES COMMITTEE – 21 FEBRUARY 2019**

**REPORT ON: LOANS FUND REPAYMENT POLICY**

**REPORT BY: EXECUTIVE DIRECTOR OF CORPORATE SERVICES**

**REPORT NO: 96-2019**

## **1 PURPOSE OF REPORT**

- 1.1 This report seeks agreement to revise the current and future debt charge repayment profile policy which has been administered through delegated powers by the Executive Director of Corporate Services, based on a prudent financial management approach.

## **2 RECOMMENDATION**

- 2.1 Members are recommended to amend the loans fund advances repayment mechanism and resultant debt charges profile for current and future loans repayments, using the following criteria:
- The most appropriate length of repayment for general services advances will be based on a long term estimation of pooled assets useful lives. These timeframes will be consistent with a prudent expectation of estimated benefit received over the life of the respective asset types
  - A longer term average rate based on the pooled Loans Fund is used to calculate principal repayments

## **3 FINANCIAL IMPLICATIONS**

- 3.1 A recurring revenue saving of £1.977m will be generated in 2019/20.

## **4 BACKGROUND**

- 4.1 The Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016 (the 2016 Regulations) came into force on 1 April 2016. These Regulations replaced the statutory provisions for local authority borrowing, lending and loans fund as set out in Schedule 3 of the Local Authority (Scotland) Act 1975.
- 4.2 The 2016 Regulations (the Guidance) require the statutory Loans Fund to be administered in accordance with the Regulations, proper accounting practice and prudent financial management. The term 'prudent' is not defined by the Regulations. However, the Statutory Guidance states that "the broad aim of prudent provision is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits".
- 4.3 Following the introduction of the new regulations and on advice from Link Asset Services (the Council's treasury consultants), a review of both the General Service and the Housing Revenue Account Loans fund advances (or debt) repayments has been undertaken in order to ensure that the Council sets aside a 'prudent' provision to repay its loans fund advances.
- 4.4 The Cabinet Secretary has undertaken to bring forward changes to legislation in 2019/20 to fully clarify the ability to vary loans fund repayments for advances made before 1 April 2016.

## **5 POLICY AMENDMENT PROPOSAL**

### **5.1 Current Policy**

The Council's current repayment policy on annuity basis with repayment terms are based on the fixed periods set out in Finance Circular 29/1975.

## 5.2 Proposed Policy

5.2.1 The repayment profile proposed will follow a simplified prudent annuity approach as follows:

- For Loans Fund Advances made before 1 April 1999 the Council will maintain the practice of previous years, with all loans fund advances being repaid by the annuity method over their existing write-off period
- For Loans Fund Advances made after 1 April 1999 with a balance remaining at 1 April 2018 the Council will adopt a simplified prudent approach that uses an average Loans Fund repayment period applying an annuity method.
- The average life and average interest rate will be kept under review each year to ensure they remain prudent.

## 5.3 Impact On Treasury Management

5.3.1 The full impact of the change of policy on Prudential Indicators will be reported to Committee in the forthcoming Treasury Management Policy and Strategy.

## 6 **POLICY IMPLICATIONS**

6.1 This Report has been screened for any policy implications in respect of Sustainability, Strategic Environmental Assessment, Anti-Poverty, Equality Impact Assessment and Risk Management. There are none.

## 7 **CONSULTATION**

7.1 The Council Management Team has been consulted in the preparation of this report.

## 8 **BACKGROUND PAPERS**

8.1 None

**Gregory Colgan**  
**Executive Director Of Corporate Services**

**20 February 2019**