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Local Government Division

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The Scottish Government

**Finance Circular 5/2010**

By email:
To: Chief Executives and Scottish Local Authority Directors of Finance/ Finance Officers

Our ref: B3516479

1 April 2010

Dear Chief Executive/ Director of Finance / Finance Officer

**THE INVESTMENT OF MONEY BY SCOTTISH LOCAL AUTHORITIES**

Scottish Ministers, in exercise of their powers under section 40 of the Local Government in Scotland Act 2003 have made regulations (The Local Government Investments (Scotland) Regulations 2010) which permit local authorities to make investments subject to them gaining the consent of Scottish Ministers. The Regulations come into force on 1 April 2010.

This circular provides the consent of Scottish Ministers and sets out the requirements attached to the consent when local authorities make investments. Local authorities have a transitional period of 3 months to identify and document all the types of investment that they will permit in the financial year as required by the consent (Part 2 paragraph 22) and produce the required investment strategy (Part 2 paragraph 26).

Any enquiries about the consent or its requirements should be addressed to me at: hazel.black@scotland.gsi.gov.uk

Yours faithfully

Hazel Black

Head of Local Authority Accounting
Local Government Division

**THE INVESTMENT OF MONEY BY SCOTTISH LOCAL AUTHORITIES**

***Scottish Government***

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**Contents**



*Part 1 of this document gives informal advice only and is not part of the Consent itself, which is contained in Part 2.*

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## PART 1 - BACKGROUND AND COMMENTARY

### Policy background

1. Local authority investment activity is regulated by statute. In Scotland the legislation that local authorities rely on to make investments has consisted of the Trustee Investments Act 1961 and the Local Government (Scotland) Act 1973. In response to representation from local authorities that the existing regulatory framework was too prescriptive, provision was made in the Local Government in Scotland Act 2003 (the 2003 Act) for Scottish Ministers to introduce a new regulatory framework.

2. Section 40 of the *Local Government in Scotland Act 2003* provides local authorities with the power to invest money. This power may be exercised in accordance with regulations made by Scottish Ministers under this section.

3. In accordance with section 40 powers, Scottish Ministers may make regulations which:

   3.1 Specify the investments or kinds of investments which a local authority may, or may not, make;
   3.2 Provide that any consent or other document providing guidance or advice will regulate the investments a local authority may, or may not, make;
   3.3 Provide for the amendment, disapplication or repeal of any enactment relating to the subject matter of the regulations
   3.4 Impose requirements as to the obtaining by a local authority of a consent to its doing of anything in pursuance of the power to invest money conferred on it by section 40.

4. The new regulatory framework introduced by regulations made by Scottish Ministers under section 40 powers provides greater autonomy for local authorities in their investment activities. With this greater freedom comes greater responsibility and the onus is on local authorities to act prudently with regard to their investment and treasury management activities. Local authority members need to be aware of this and be prepared to accept that this is now their responsibility. Local authorities should make appropriate arrangements to make training available for the relevant council/ board members as required by the CIPFA Treasury Management Code. The

amendments to existing enactments and the issue of regulations under section 40 of the 2003 Act implement that policy.

5. Local authorities are required to manage their investments in a way that minimises the risk to the capital sum and optimises the return on the funds consistent with those risks.

**Investment Regulations**

6. In exercise of the powers conferred on Scottish Ministers under section 40 of the 2003 Act, the Local Government Investments (Scotland) Regulations 2010 sets out the requirement for a local authority to obtain the consent of Scottish Ministers to make investments (regulation 2).

7. This circular provides the consent of Scottish Ministers for local authorities to invest money subject to the requirement to comply with the conditions of that consent which are set out in this circular. The Consent will commence at the same time as the investment regulations.

8. Using the powers conferred on them by section 40 of the 2003 Act, Scottish Ministers have identified two CIPFA Code of Practice which local authorities will be required to have regard to in managing their investments. The two CIPFA publications are ***Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes,*** (Fully Revised Second Edition 2009) and ***The Prudential Code for Capital Finance in Local Authorities***, (Fully Revised Second Edition 2009). The first Code referenced covers the whole range of treasury management issues, including the fundamental principles for making and managing investments. The second Code deals with capital investment but also includes guidance on treasury management. Any revisions or re-issue of these two CIPFA Codes will not automatically regulate local authority investments. In the event either of the Codes are revised or re-issued the investment regulations will need to be revised to recognise the new publications. Until the regulations are amended by the Scottish Parliament the version of the Codes identified in the regulations will continue to regulate local authority investments.

**Informal commentary on the Consent issued by Scottish Ministers**

9. The Consent requires local authorities to consider the totality of their investment activity, and as such has a wider remit than the CIPFA Treasury Management Code. The Consent applies to a range of investments, which covers the investment of temporary surplus funds with banks and similar institutions, shareholdings in companies or joint ventures, loans to group undertakings and third parties. It also covers investment properties.

10. The definition of investment has its normal meaning. This will include those items, and underlying transactions, which appear under the heading of investments, whether long or short term, on the (single entity) balance sheet. It also includes investment properties and loans to third parties. For the avoidance of doubt, the Consent specifically identifies things which count as investments and those which do not.

11. Investment properties form part of the local authority portfolio of investments. These are properties which are held solely to earn rentals and /or capital appreciation, and not used by an Authority for service delivery or administrative purpose. Given that they are held for investment purposes they are covered by the regulations and Consent.

12. The Consent includes as an investment any loan issued to a third party. Such loans are neither capital nor revenue transactions, but are often made for service reasons and for which specific statutory provision exists. For service reasons these loans may be offered at an interest rate below the market rate. All loans to third parties are classified as investments for the purposes of the Consent. Where the loan is advanced at less than a market interest rate there is an associated loss of investment return which would otherwise have been earned on these monies. Annual Strategies and Reports will need to recognise all loans to third parties as investments. Local authorities may wish to categorise such advances, identifying the service reason together with details of those loans carrying a below market interest rate and the impact these advances have on investment returns.

13. Schedule 3, paragraphs 10 and 11 of the *Local Government (Scotland) Act 1975* permits a local authority to lend to another local authority or harbour authority on such terms agreed between them for the purposes for which that other authority are authorised to borrow. Councils often utilise this power to lend to police and fire boards. The Consent specifically excludes this type of lending from being treated as an investment by the regulations. Local authorities should continue to distinguish between loans made under Schedule 3 powers and those surplus funds deposited with other local authorities which should be treated as investments.

14. Section 40 of the 2003 Act applies to those bodies identified by section 61 of the 2003 Act. This covers the 32 councils, the police and fire boards, and through the Transport (Scotland) Act 2005, the regional transport partnerships. It applies to the investment of money forming part of the Common Good, except where the Common Good property and assets are held by a charity. It does not however apply to local authority pension funds which are covered by a separate regulatory regime. Nor does the legislation extend to local authority charity or trust funds or local authority controlled companies as these are separate legal entities.

15. The Consent requires local authorities to invest in a way that minimises the risk to the capital sum and optimises the return on the investment consistent with those risks. Scottish Ministers recommend that local authorities put in place suitable policies and procedures to ensure that investments held by local authority trusts and companies are also managed in a way that minimises the risk to the capital sum and optimises the return on the funds consistent with those risks.

***Annual Investment Strategy and Annual Investment Report***

16. The Annual Investment Strategy (Strategy) and Annual Investment Report (Report) are central to the Consent.

17. Local authorities are required to prepare an Annual Investment Strategy before the start of the financial year and an Annual Investment Report after the financial year end. The requirement for local authorities to produce an annual strategy and annual report is also reflected in the CIPFA Treasury Code. There is no intention to require authorities to produce a separate investment strategy. An Authority's net treasury position is determined by the relationship of the Capital Financing Requirement (its need to borrow) and its balances and reserves (potential to invest) As such capital investment, borrowing and the investment of money are inter-related and it is considered that local authorities should have an integrated strategy within which both its borrowing and investments are considered. As such Scottish Ministers recommend that there be a single Strategy covering capital, treasury management, the setting of prudential indicators and the requirements of these investment regulations and Consent. A single Report covering the same elements should be produced at the financial year end. Local authorities should set out their strategy for investments, explain their investment objectives and policies, including any special circumstances applying to them that have led to a particular approach. By stating objectives of investments this will identify those investments held for an investment return or for other service reasons. The Report should seek to provide an objective evaluation of performance against the Strategy. Where benchmarking has been undertaken details should be included in the Report.

18. Local authorities should advise, through their Strategy, whether they have adopted the CIPFA Treasury Management Code and the CIPFA Prudential in full, or where they have not, should provide an explanation.

19. The Consent specifies minimum requirements for the Strategy. The detailed content will be a matter for each local authority to determine, taking into consideration its own local circumstances.

20. The Strategy should be approved by the local authority (i.e. full Council or Board) before the start of the financial year. Section 56 of the Local Government (Scotland) Act 1973 Act permits local authorities in Scotland to discharge their functions by committees. Exceptions are setting the council tax (s56 (6) (b)) and borrowing money (s56 (6) (d)), which requires the authority, that is full Council, to discharge. The investment regulations issued under section 40 of the 2003 Act extend the section 56 provisions to require the Authority to approve the Annual Investment Strategy and Annual Investment Report. Although the Strategy has to be approved by full council / board before the start of each financial year Scottish Ministers recommend that the Strategy or Report is also considered by an appropriate committee / scrutiny body. The Strategy may be varied at any time during the year, subject to any variations being subsequently reported to the appropriate committee. Both the Strategy and Report should be made available to the public. Local authorities may determine how they fulfil this requirement but it is expected that both reports should be available from the local authority web-site.

21. Underpinning any investment strategy will be investment policies and practices. The Consent therefore requires local authorities to consider, and adopt, investment policies and practices. Many of the Treasury Management Practices (TMPs) identified by the CIPFA Treasury Code are relevant to the wider investments

covered by the Consent issued by Scottish Ministers. The Strategy should make reference to these policies and practices.

**Permitted investments**

22. Local authorities are able to determine what investments they may make, both the type of investment and also the duration of the investment. If a local authority plans to hold longer term investments the risks associated with this approach, such as liquidity risk, and the objectives for holding longer term investments should be set out in the Strategy.

23. Local authorities are required to set out in their Strategy or their Treasury Management Policy Statement the types of investment that they will permit in the financial year. These will be known as ‘permitted investments’. Local authorities should set a limit to the amounts that may be held in such investments at any time in the year. The limit may be a sum of money or a percentage of total investments, or both. Local authorities may leave some types of investment as unlimited but the reasons for doing so must be set out in the Strategy or policy statement and should be consistent with the risk assessment undertaken.

24. Local authorities are required to draft their Strategy or policy statement in a way that identifies the different types of treasury risk that their permitted types of investment are exposed to – credit or security risk (of default), liquidity risk (risks associated with committing funds to longer term investments) and market risk (effect of market prices on investment value). The Strategy or policy statement should describe the controls in place for limiting those risks. These may include the use of credit rating agencies, investing with the UK Government, other local authorities, investing only in sterling, limiting the period of investment etc. An investment should be regarded as commencing on the date the commitment to invest is entered into, rather than the date on which the funds are paid over to the counterparty.

25. Investments include the acquisition of share or loan capital. These types of investment may have been made for service policy reasons or for treasury management purposes. Irrespective, both are considered to be investments and the Strategy/ policy statement and Investment Report should cover both types.

26. The Strategy should also set out procedures for reviewing the holding of longer term investments, particularly those held in properties or shareholdings in companies or joint ventures.

27. Local authorities should include within their permitted investments loans issued to third parties. Statutory powers exist for local authorities to provide this type of financial assistance, for example the Housing (Scotland) Act 1987, the Housing (Scotland) Act 2006 and the general power to advance well-being contained in the Local Government in Scotland Act 2003 at section 20. The inclusion of loans to third parties as part of the investments of a local authority is to identify the value of local authority monies utilised in this way, monies which would otherwise be available for general investment and give rise to investment income. The regulations and Consent seek only to regulate for the identification and reporting of these

transactions, with specific focus on those loans which are issued at less than a market interest rate.

28. In the event that a local authority makes an investment which is not listed as a permitted investment in their annual investment Strategy that investment will not be made in accordance with the Consent and as such it will be *ultra vires*. The exception to this is where the Consent requires the local authority to recognise as an investment a financial transaction that relies on separate legislative powers, for example loans to third parties.

**Borrowing to invest**

29. The CIPFA Prudential Code (fully revised second edition published by CIPFA in 2009) is clear that local authorities must not borrow more than or in advance of needs purely in order to profit from the investment of the extra sums borrowed (paragraph 61 of the Code). In terms of the conditions under which borrowing may be taken early the Prudential Code identifies the requirement to demonstrate that, over the medium term, borrowing will only be for a capital purpose. This requires authorities to demonstrate that borrowing does not, except in the short term, exceed the total capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This merely sets a limit on the total borrowing that is acceptable under the Code to provide flexibility in treasury management but ensure borrowing is only for capital expenditure. Given the freedoms introduced by the Prudential regime in relation to the timing of borrowing it is important that a local authority sets out in its Annual Investment Strategy its approach for any borrowing in advance. This strategy will need to consider not only the benefits of borrowing in advance but also the investment risks created by the existence of investments at the same time as borrowing outstanding. It will also need to consider how far in advance it is reasonable to borrow considering the risks identified.

30. Scottish Ministers therefore require local authorities to set out within their Strategy their approach to borrowing in advance. Any such advance borrowing should be reported as part of the next Treasury Management report to the appropriate oversight committee.

31. Borrowing in advance is defined as any borrowing undertaken by the local authority which will result in the total external debt of the local authority exceeding the capital financing requirement (CFR) of the local authority for the following twelve month period. The twelve month period is a rolling twelve month basis. This is best explained by way of an illustration:

Position of a local authority:
Actual capital financing requirement as at 31 March 2010 is £497,000,000
Estimate of capital financing requirement as at 31 March 2011 is £500,000,000
Estimate of capital financing requirement as at 31 March 2012 is £505,000,000

Any borrowing undertaken in March 2010 would need to be assessed against the CFR for the next 12 month period. For any borrowing undertaken in March 2010 this would equate to the CFR as at 31 March 2011. Therefore any borrowing which causes external debt to increase above £500,000,000 (the CFR for the next 12 month period) would be advance borrowing.

Any borrowing undertaken in June 2010 would need to be assessed against the estimated CFR as at 30 June 2011. The CFR at 31 March 2011 is estimated at £500,000,000. To this would be added three twelfths (April to June) of the increase in CFR in 2011-12. This equates to £1,250,000 giving a CFR of £501,250,000 as at 30 June 2011. Any borrowing which causes external debt to exceed £501,250,000 would be advance borrowing.

If the CFR is falling rather than rising then any assessment would need to be made against this falling CFR. So if the CFR at 31 March 2011 is estimated at £500,000,000 falling to £496,000,000 as at 31 March 2012 then any borrowing undertaken in June 2010 would be assessed against a CFR of £499,000,000.

Total external debt is used rather than just the borrowing of money as the CFR identifies the underlying need to borrow. This may be the borrowing of money but may also include an equivalent of borrowing such as finance leases, deferred purchase and other similar arrangements in respect of long-term credit.

The total CFR is used rather than the year to year increase in the CFR to ensure that where authorities, following a strategy of being under borrowed against CFR to say, de-risk investments, change their strategy in light of market conditions and plan to borrow up to their CFR, are not considered to be borrowing in advance.

Scottish Government
Local Government Division

**[PART 2]**

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**CONSENT BY SCOTTISH MINISTERS FOR THE INVESTMENT OF MONEY BY SCOTTISH LOCAL AUTHORITIES – SUBJECT TO THE REQUIREMENTS AS SET OUT BELOW**

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## DEFINITIONS

### General

1. In this Consent the ***2003 Act*** means the Local Government in Scotland Act 2003.

2. *A* ***financial year*** means a period from 1 April in one year until 31 March in the next.

3. ***Borrowing in advance*** is any borrowing undertaken by the local authority which will result in the total external debt of the local authority exceeding the estimated capital financing requirement of the local authority at the end of the next twelve month period. The twelve month period is a rolling twelve month basis. In estimating the CFR for the next twelve month period the CFR set by the local authority for the end of each financial year shall be used. Any increase or decrease in the CFR for the forthcoming financial year shall be divided by twelve to provide a value (positive or negative) for each month of that financial year. To the CFR estimated for the end of the current financial year shall be added a sum equal to the number of twelfths of the CFR for the forthcoming financial year necessary to provide a twelve month estimate.

4. ***Capital Financing Requirement (CFR)*** and ***external debt*** has the same definitions as set out in the CIPFA Prudential Code.

5. ***CIPFA*** is one of the professional accountancy bodies in the UK, a registered charity, number 231060, located at 3 Robert Street, London, WC2N 6RL.

6. ***CIPFA Treasury Management Code*** is the publication entitled 'Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes' fully revised second edition published by CIPFA in 2009.

7. ***CIPFA Prudential Code*** is the publication entitled 'The Prudential Code for Capital Finance in Local Authorities' fully revised second edition published by CIPFA in 2009.

*8.* ***Common Good*** is that property recognised as such by statute, but excludes common good property held as a charity.

9. ***Investment***, and related expressions, has its normal meaning, subject to the following -

(a) All share holding, unit holding and bond holding, including those in a local authority owned company, is an investment
(b) Loans to a local authority company or other entity formed by a local authority to deliver services, is an investment.
(c) Loans made to third parties are investments.
(d) Loans made by a local authority to another authority or harbour authority using powers contained in Schedule 3, paragraph 10 or 11 of the *Local Government (Scotland) Act 1975* are not investments.
(e) Investment property is an investment.

10. ***Investment Property*** is property or properties recorded in the local authority accounts (single entity), or the common good accounts, as investment properties in accordance with proper accounting practices.

11. ***Longer term investment*** means investments entered into for a period actually (or expected to be) longer than one year.

12. ***Permitted investments*** are those investments a local authority has formally approved for use by the authority.

13. ***Proper accounting practices*** are as defined by section 12(2) of the Local Government in Scotland Act 2003.

14. The ***Report*** means the Annual Investment Report which each local authority shall produce in accordance with paragraphs 46 to 55 of the Consent.

15. The ***Strategy*** is the Annual Investment Strategy which each local authority shall produce in accordance with paragraphs 26 to 45 of the Consent

16. ***Treasury Management Policy Statement*** is that statement required to be adopted by local authorities by the CIPFA Treasury Management Code

## APPLICATION

17. This Consent applies in relation to –
(a) the financial year commencing 1 April 2010, and
(b) subsequent financial years.

18. The Consent applies to those local authorities in Scotland to which section 40 of the 2003 Act applies.

## PURPOSES OF INVESTMENTS

19. A local authority may invest money for any purpose relevant to its functions under any enactment, or for the purposes of the prudent management of its financial affairs

## INVESTMENTS WHICH A LOCAL AUTHORITY MAY MAKE

20. A local authority may make the investments or kinds of investments which are defined as permitted investments

## PERMITTED INVESTMENTS

21. The Treasury Management Policy Statement or the Annual Investment Strategy shall deal with the requirements as set out in paragraphs 22 to 25 of this Consent.

22. A local authority shall identify and document all the types of investment that they will permit in the financial year. These will be described as the permitted investments for that local authority. For a transitional period from 1 April 2010 to 30 June 2010 only, the types of investments set out in a local authority's existing approved Treasury Management Policy Statement or their existing approved Treasury Strategy (as required by the CIPFA Treasury Management Code), may be considered the permitted investments of that local authority.

23. The local authority will identify separately the permitted investments relating to the Common Good.

24. A local authority shall state the limits for the amounts which, at any time during the financial year, may be invested in each type of permitted investment, such limit being applied when the investment is made. The limits may be defined by reference to a sum of money or a percentage of the local authority's overall investments, or both. A local authority may state that a permitted investment is unlimited. Where a limit is not placed on any type of permitted investment the risk assessment must support that categorisation and an explanation provided as to why an unlimited categorisation is recommended.

25. The local authority should identify for each type of permitted investment the objectives of that type of investment. Further, the local authority should identify the treasury risks associated with each type of investment, together with the controls put into place to limit those risks. Treasury risks include credit or security risk of default, liquidity risk – the risks associated with committing funds to longer term investments and market risk – the effect of market prices on investment value.

## ANNUAL INVESTMENT STRATEGY

26. A local authority shall produce an Annual Investment Strategy for each financial year. For the financial year commencing 1 April 2010 the Strategy shall be approved by the local authority, that is, full council or board, no later than 30 June 2010. For the financial year commencing 1 April 2011 and all subsequent financial years the Strategy shall be approved by the local authority, that is, full council or board, before the start of each financial year. Scottish Ministers recommend that an appropriate committee or scrutiny body reviews the report.

27. Scottish Ministers recommend that the Strategy should form part of a wider single annual strategy covering capital investment, treasury management and prudential information.

28. Scottish Ministers require local authorities to identify, and adopt, investment policies and practices. Details as to how these policies and practices are scrutinised before being accepted, and how they are monitored and changed, should be set out in the Strategy.

29. The Strategy shall refer to the local authority's policies for managing its investments, for minimising the risk to the capital sum and for optimising the return on the funds consistent with those risks.

30. Where a local authority has set out its permitted investments in its Treasury Management Policy Statement the Strategy shall refer to this policy and a copy of the policy should be annexed to the Strategy.

31. As a minimum, the Strategy should forecast the level of investments over the same period as the local authority capital investment plans. Details should be provided of the likely factors influencing future investment levels, such as the use of internal borrowing or borrowing in advance.

32. The Strategy shall include details of the maximum value and maximum periods for which funds may prudently be invested. The Strategy shall set out the local authority objectives for holding longer term investments. The Strategy shall also refer to the procedures for reviewing the holding of longer term investments particularly those investments held in properties, shareholdings in companies or joint ventures.

33. Details as to where any policies referred to in the Strategy may be obtained should be included within the Strategy.

34. The Strategy should be explicit about the level of risk the local authority accepts, as reflected in the permitted investments of that local authority. This should be based on the capability of the organisation to manage the risks identified for any type of investment permitted. The Strategy should also be explicit about the balance between security and liquidity and the yield to be achieved.

35. The Strategy shall contain details of the relevant prudential indicators for investments as set out in the CIPFA Codes.

36. Local authorities shall advise through their Strategy whether they have adopted the CIPFA Treasury Management Code and the CIPFA Prudential Code in full, or where they have not, provide an explanation.

37. Where external investment managers are used, they shall be contractually required to comply with the Strategy and any policy statement on permitted investments.

38. Variations to the Strategy must be reported to the appropriate committee.

39. The Strategy and any variations thereto shall be made available to the public.

**BORROWING AND THE INVESTMENT OF MONEY**

40. Local authorities must not borrow more than or in advance of their needs primarily to profit from the investment return of the extra sums borrowed.

41. Local authorities must be able to demonstrate that borrowing is for a legitimate purpose such as the exercise of day to day cash management or the management of borrowing for capital purposes as set out in the CIPFA Codes.

42. Borrowing in advance may be taken for risk management reasons subject to sound justification. When considering borrowing in advance authorities should balance investment risks, such as the credit and interest risks resulting from the temporary investment of the proceeds of borrowing, against the risk of adverse interest rate movements if borrowing is deferred. Consideration should also be given to the existing debt maturity profile over the medium term.

43. Before any borrowing in advance is permitted, a local authority shall state its policy for borrowing in advance in the Strategy. Any Strategy which includes proposals to borrow in advance shall include justification of that proposal. The justification should provide reasons why borrowing in advance is considered desirable, the criteria which would be applied in deciding to undertake the borrowing in advance, the maximum extent to which borrowing in advance would be undertaken, and the implication of any borrowing in advance on the Investment Strategy.

44. When any borrowing in advance is carried out a local authority should document the justification for the borrowing and, as a minimum, include the following:

- Details of the borrowing in advance undertaken.
- The borrowing within the context of the overall requirement of the authority over the medium term (covering both capital programme needs and the existing debt maturity profile).
- The anticipated timing (date or financial year) as to when those funds are expected to be required.
- The prudential indicator which demonstrates that, in the medium term, borrowing will only be for capital purposes.
- The anticipated rate/s of interest expected to apply if the borrowing is deferred until the time the funds are required.
- The anticipated rate/s of interest expected to be achieved by investing the sums borrowed in advance.
- Details of how interest rates have been forecast, and an explanation of the reasonableness of such forecasts should be provided.
- Any third party information or advice used or sought in this regard.
- The risks associated with borrowing in advance and what controls are in place to manage that risk.

- A discounted cash flow including borrowing cost savings and investment income discounted back to present values, with discount rates disclosed and justified.

45. Authorities are expected to exercise due prudence in forecasting future interest rates.

**REPORTING**

46. The Strategy will set out the level of risk the authority will accept. Local authorities shall ensure that reporting arrangements are commensurate with that risk. Scottish Ministers recommend that the investment report forms part of the treasury management report required by the CIPFA Treasury Management Code. As a minimum reporting shall be the Strategy in advance of the year, a mid year review and an annual report after the financial year. This reflects the minimum requirements of the CIPFA Treasury Code.

47. Decisions taken to borrow in advance should form part of the next treasury management report submitted to the appropriate oversight committee. The report should justify the decision to borrow in advance, reflecting the strategy and original assumptions, provide details of the borrowing and interest rates achieved, and include the estimated value of any anticipated savings due to the decision.

48. A local authority shall produce an Annual Investment Report within six months after the financial year end. Scottish Ministers recommend that the Report should form part of a wider single annual report covering capital investment, treasury management and prudential information.

49. The Report must be approved by the local authority, that is, full council or board. Scottish Ministers recommend that an appropriate committee or scrutiny body reviews the report.

50. The Report should seek to provide an objective evaluation of performance against the Investment Strategy for the year. Authorities should report against their strategy to advance or defer borrowing, their assumptions made about interest rates and whether or not they chose to defer borrowing or to borrow in advance.

51. The report shall include details of external debt (gross external borrowing plus other long term liabilities such as finance leases) at the financial year end compared with the Capital Financing Requirement at the financial year end. This will indicate whether the local authority has advance borrowing or is utilising internal borrowing. The report should comment on this position.

52. The Report shall cover the performance and return of all investments made or held during the financial year by type of investment, evaluated against the stated investment objective. If benchmarking has been undertaken details shall be included in the Report.

53. The Strategy or the Treasury Management Policy Statement will have identified the risks identified with any investment and the controls put in place to limit

these risks.  The Report shall identify any risks that have materialised in the year and report on any financial consequences of that risk; together will details of any remedial action take.  This includes reporting any short term borrowing costs incurred to remediate any liquidity problem.

54. The Report shall include details of any review of long term investments, held by the authority, which was undertaken in the year in accordance with the Annual Investment Strategy.

55. The Report shall be made available to the public.

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***Scottish Government*** ***1 APRIL 2010***

***Victoria Quay, Leith, Edinburgh EH6 6QQ***

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