NORTH AYRSHIRE COUNCIL

23 September 2020

North Ayrshire Council

Title:	**Treasury Management and Investment Annual Report 2019/2020**
Purpose:	To report to Council on the Treasury Management and Investment Annual Report and Prudential Indicators for 2019/20
Recommendation:	That Council notes (a) the Treasury Management and Investment Annual Report for 2019/20 (Appendix 1); and (b) the Prudential and Treasury Indicators contained therein

1. Executive Summary

1.1 The Council is required by regulations issued under the Local Government in Scotland Act 2003 to produce an annual review of treasury management activities. The purpose of the annual review is to report the performance of the Council's treasury operations and how this measures up against the Council's Treasury Management and Investment Strategy 2019/20. This is done through the publication of the annual report which contains the actual prudential and treasury indicators for 2019/20.

1.2 This Treasury Management and Investment Annual Report meets the requirements of the Scottish Government's investment regulations, the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

1.3 The Treasury Management and Investment Annual Report 2019/20 for North Ayrshire Council is attached at Appendix 1. Key points to note from the report are as follows:

- During 2019/20, the Council complied with its legislative and regulatory requirements in relation to treasury activities;
- Capital expenditure was below the level anticipated at the start of the year due to changes in the profile of projects;
- Gross borrowing was higher than anticipated as a result of additional PWLB borrowing taken out to safeguard the Council against any potential cashflow impacts of Covid-19 and to reduce the Council's exposure to Interest rate risk;
- The average loans fund pool rate reduced slightly from 4.00% to 3.97%; and

- During the year, a review of the methodology for loans fund advances was undertaken. The changes identified resulted in reductions in payments over the period of the current General Services Capital programme and the equivalent period of the HRA Capital programme of £11.117m and £7.036m, respectively. Over the full period of advance repayments, the changes will result in an estimated overall increase in interest costs of £2.820m for the General Fund and £5.652m for the HRA based on the current Capital Programmes as approved by Council.

2. Background

2.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management requires elected members to be provided with regular reports on treasury management activities. The 2019/20 Annual Treasury Management and Investment Strategy was approved by Council on 27 February 2019 and the mid-year report was submitted to the Cabinet on 26 November 2019. This final outturn report ensures full compliance with the CIPFA Code of Practice.

2.2 **Current Position**

The 2019/20 annual report is attached at Appendix 1 and covers:

- Prudential and treasury indicators;
- Investment rate and outturn; and
- Performance measures.

2.3 **Statutory Requirements**

During 2019/20 the Council complied with its legislative and regulatory requirements. 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 the Council has operated within the treasury limits and prudential indicators as set out in the Council's 2019/20 Annual Treasury Management and Investment Strategy Statement (TMSS).

2.4 **General Services and Housing Revenue Account (HRA)**

2.4.1 **Capital Financing Costs** - the General Fund had a revised budget of £16.144m for financing costs and expenses on debt for 2019/20. Following the planned contribution to the Loans Fund Reserve of £3.179m, related to the continuing strategy to delay new external borrowing by utilising cash balances, the use of temporary borrowing from other local authorities and the impact of the review of loans fund repayments carried out during the year, no variances were reported for year to 31 March 2020. For the HRA, an overspend of £0.110m against a budget of £8.455m was reported, resulting from the corporate debt reprofiling exercise and the review of loans fund repayments.

2.4.2 **Interest on Revenue Balances** - the General Fund revised budget of £0.065m for interest on its revenue balances, reported no variances for the year. The comparative information for the HRA was a budget of £0.058m with a reported over-recovery of £0.036m. The performance against budget reflects the increased diversification of the Council's investment portfolio which maximises returns whilst minimising risks.

3. Proposals

3.1 That Council notes (a) the contents of the Treasury Management and Investment Annual Report for 2019/20 (Appendix 1); and (b) the Prudential and Treasury Indicators contained therein.

4. Implications/Socio-economic Duty

Financial

4.1 Within the General Fund the £3.179m planned underspend has been transferred from Capital Financing to the Loans Fund Reserve in line with the agreed policy.

Within the HRA, the overspend of £0.074m has been met from the overall HRA budget in 19/20.

Human Resources

4.2 None.

Legal

4.3 The Local Government in Scotland Act 2003 and supporting regulations require the Council to produce an annual review of treasury management activities.

Equality/Socio-economic

4.4 None.

Environmental and Sustainability

4.5 None.

Key Priorities

4.6 The Treasury Management and Investment Annual Report aligns with the Council Plan 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 Council's treasury advisors, Arlingclose Ltd, were consulted in the preparation of this report.

Mark Boyd
Head of Service (Finance)

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

Background Papers
None

North Ayrshire Council
Comhairle Siorrachd Àir a Tuath

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1. Purpose

The Council is required by regulations issued under the Local Government in Scotland Act 2003 to produce an annual review of treasury management activities. The purpose of this annual 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 2019/20. This is done through the publication of the annual report and actual prudential and treasury indicators for 2019/20.

This report meets the requirements of the Scottish Government's investment regulations, 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 the minimum requirement was that the following reports should be submitted to Elected Members:

- an annual treasury management and investment strategy (submitted to the Council on 27 February 2019)
- a mid-year treasury update report (submitted to the Cabinet on 26 November 2019)
- an annual review following the end of the year describing the activity compared to the strategy (this report)

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 the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

2. Executive Summary

During 2019/20, the Council complied with its legislative and regulatory requirements.

The **key prudential and treasury indicators** detailing the impact of capital expenditure activities during the year, with comparators, are summarised below. In order to provide consistency within all the tables in this report, all figures exclude the Council's liabilities in respect of PPP/NPD unless otherwise stated.

TABLE 1

Prudential and treasury indicators	2018/19 Actual £m	2019/20 * Estimate £m	2019/20 Actual £m
Capital expenditure **(Indicator 1)**			
General services	32.006	42.766	33.039
HRA	28.990	41.935	37.759
Total	**60.996**	**84.701**	**70.798**
Capital Financing Requirement (CFR):			
General services	187.368	187.044	184.896
HRA	120.312	127.346	124.554
Total	**307.680**	**314.390**	**309.450**
Gross borrowing **(Indicator 4)**	256.016	264.390	279.493
Operational Boundary **(Indicator 5)**	327.895	338.333	330.009
Authorised Limit **(Indicator 6)**	360.684	372.166	363.010
Investments **(Indicator 7)**			
· Longer than 1 year	-	-	-
· Under 1 year	21.850	25.000	39.657
· **Total**	**21.850**	**25.000**	**39.657**

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

Overall **Capital Expenditure** was below the level anticipated due to changes in the profile of projects.

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.

Gross Borrowing reflects the actual borrowing which has been undertaken, this was higher than anticipated as a result of additional PWLB borrowing taken out to safeguard the Council against any potential cashflow impacts of Covid-19 and to reduce the Councils exposure to Interest rate risk.

The **Operational Boundary** is the maximum we would anticipate borrowing to fund the current capital programme, building in flexibility for the timing of the different funding streams and principal repayments. Due to the use of internal funds and the re-profiling of the capital programme, the Council's actual borrowing position is well within the Operational Boundary.

The **Authorised Limit** is a statutory limit; it is the maximum amount of borrowing determined by the Council and should not be exceeded. The Council has set the Authorised Limit at 10% above the Operational Boundary to give some flexibility to raise funds for future year capital investment.

As noted above, the Council continues to use its internal funds to delay borrowing to minimise costs but balances this with long term borrowing to support the agreed Capital Investment Programme and to reduce the Council's exposure to interest rate risk. During 2019/20 the Council undertook long term borrowing of £40m. This has allowed the Council to benefit from low borrowing costs and has contributed to the long term stability of our debt portfolio, while continuing to maintain borrowing levels well within the operational boundaries set by the Treasury Management and Investment Strategy.

The **average loans fund pool rate** is the total interest paid during the year as a percentage of the total loans fund advances. In 2019/20 this marginally decreased from 4.00% to 3.97%.

The **maturity profile** and balance between **fixed and variable rate borrowing** mitigates the Council's exposure to interest rate variations either now or when loans require to be refinanced. A total of £50.950m of the Council's loans are at a variable rate, which is in line with the strategy.

Affordability of borrowing is measured by the percentage of financing costs relative to the net revenue stream of the General Fund and Housing Revenue Account; the percentage values were lower than estimated for both the General Fund and the Housing Revenue Account. Actuals for 2019/20 were 4.5% for the General Fund and 17.1% for the Housing Revenue Account. Capital expenditure impacts on the revenue budget through financing charges so it is essential the Council ensures the financing costs remain affordable and do not constitute an excessive proportion of the revenue resources available. From a General Fund perspective, the Scottish Local Authority average was 7.58%, therefore demonstrating a prudent borrowing policy. For the HRA, the level of loan charges is deemed prudent and affordable within the framework of the 30 year Housing business plan.

The **average internal investment** rate was 0.80% compared to a target of 0.65%. The rate secured in 2018/19 was 0.65%. The higher return secured in 2019/20 reflects the increased diversification of the Councils 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.

Conclusion

The Head of Service (Financial and Customer Services) confirms that long-term borrowing is only undertaken for a capital purpose and that 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 that councils demonstrate effective control over levels of, and decisions relating to, capital investment activity, including borrowing. 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.

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

- The Council's Capital Expenditure and Financing (section a);
- The Council's Overall Borrowing Need (section b);
- Limits to Borrowing Activity (section c);
- Treasury Position at 31 March 2020 (section d); and
- Affordability Prudential Indicators (section e);

(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 have no impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply other resources, then capital expenditure will give rise to borrowing which needs to be approved as part of the Council's capital investment plans.

The tables below show the actual capital expenditure incurred in 2019/20 compared with the planned investment alongside the amount financed immediately and the amount which gave rise to borrowing.

TABLE 2

General Fund	2018/19 Actual £m	2019/20 Estimate £m	2019/20 Actual £m
Capital expenditure (Indicator 1)	**32.006**	**42.766**	**33.039**
Financed in year	10.701	34.811	27.232
Unfinanced capital expenditure	**21.305**	**7.955**	**5.807**

HRA	2018/19 Actual £m	2019/20 Estimate £m	2019/20 Actual £m
Capital expenditure (Indicator 1)	**28.990**	**41.935**	**37.759**
Financed in year	24.687	31.633	30.249
Unfinanced capital expenditure	**4.303**	**10.302**	**7.510**

(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 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, the Public Works Loan Board [PWLB], other Local Authorities, or the money markets), or utilising temporary cash resources within the Council.

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 Loans 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 capital receipts); or
- increasing the annual revenue charge

The Council's CFR for the year is a key prudential indicator and is shown below. The opening balance includes PPP/ NPD schemes on the balance sheet, which increases the Council's borrowing need. This is shown in order to give a complete picture of the Council's debt, however, no borrowing is actually required against these schemes as a borrowing facility is included in the contract and, as such, this is subsequently removed.

Table 3 shows that, based on historic capital expenditure and this year's capital expenditure, the Council has a cumulative underlying need to borrow £309.450m at 31 March 2020.

TABLE 3

CFR	2018/19 Actual £m	2019/20 Estimate £m	2019/20 Actual £m
Opening balance	293.271	307.680	307.680
Add new PPP/NPD liability	107.896	102.459	107.013
Revised Opening Balance	**401.167**	**410.139**	**414.693**
Add unfinanced capital expenditure (General Fund)	21.305	7.955	5.807
Add unfinanced capital expenditure (HRA)	4.303	10.302	7.510
Less Loans Fund Principal Repayments	(11.199)	(11.547)	(11.547)
Sub-total	**415.576**	**416.849**	**416.463**
Less PPP/NPD lease repayments	(107.896)	(102.459)	(107.013)
Closing balance (Indicator 2)	**307.680**	**314.390**	**309.450**
Annual Change (Indicator 3)	**14.409**	**6.710**	**1.770**

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

Borrowing activity is constrained by the prudential indicators for CFR and gross borrowing and by the authorised limit, to ensure that 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 gross borrowing position against the CFR and confirms that the Council has complied with this prudential indicator as gross borrowing is currently within the CFR. The Council is currently under borrowed by £29.957m due to the continuing strategy to delay new external borrowing by utilising internal cash balances. The reduction in the under borrowed position reflects additional PWLB borrowing taken out to safeguard the Council against any potential cashflow impacts of Covid-19 and to reduce the Council’s exposure to Interest rate risk.

TABLE 4

	2018/19 Actual £m	2019/20 Estimate £m	2019/20 Actual £m
Gross borrowing position **(Indicator 4)***	256.016	264.390	279.493
CFR	307.680	314.390	309.450
(Under)/Over Borrowed Position	**(51.664)**	**(50.000)**	**(29.957)**

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 (Indicator 5)

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 are acceptable subject to the authorised limit not being breached.

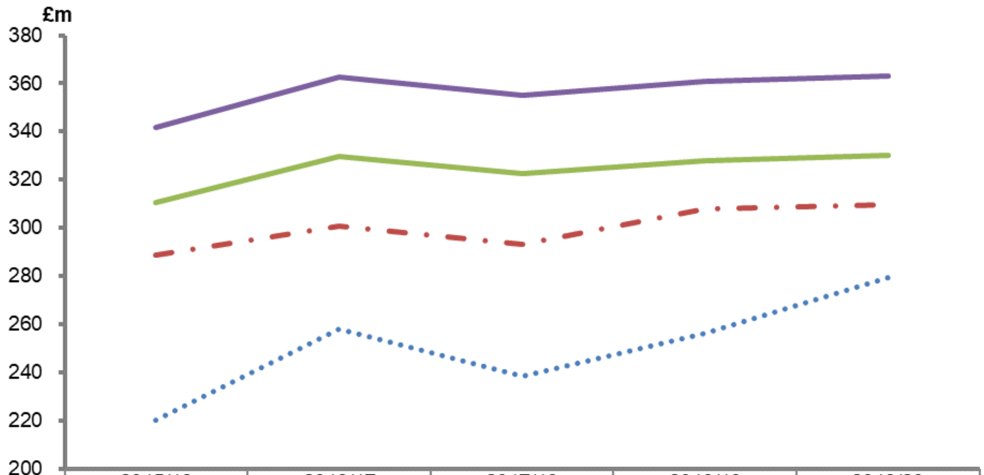
The Authorised Limit (Indicator 6)

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 term. The current limit is set at 10% above the operational boundary.

The following graph shows the trend of the Council’s gross borrowing against approved limits. This demonstrates that during 2019/20 the Council’s gross borrowing was within both the operational boundary and the authorised limit by a very significant margin, due to the continuing strategy to delay new external borrowing by utilising internal cash balances and due, also, to some slippage in the overall capital programme which has reduced the requirement for borrowing.

Further information on capital slippage can be found in the ‘Capital Programme Performance to 31 March 2019’ report, presented to Cabinet on 30 June 2020.

Borrowing Projection v Approved Limits



	2015/16	2016/17	2017/18	2018/19	2019/20
Gross Debt at 31 March	219.979	257.863	238.277	256.016	279.493
CFR (Borrowing need)	288.565	300.917	293.271	307.680	309.450
Operational Boundary	310.546	329.526	322.631	327.895	330.009
Authorised Limit	341.601	362.479	354.894	360.684	363.010

(d) Treasury Position at 31 March 2020 (Prudential Indicators 7 -9)

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 both through Member reporting and through 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 promoted a cautious approach, whereby investments continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

On 9 October the treasury raised the margin that applies to new loans from the PWLB by one percentage point. The impact of this was to make long term borrowing less attractive and as a result the Council continued its strategy of using internal resources and temporary borrowing to minimise costs.

However, the Chancellor's March 2020 budget statement announced that from 12 March, new HRA loans could be taken out at 1 percentage point lower than the standard PWLB rate. Taking into consideration these lower borrowing rates, the Council's significant HRA investment programme and the impending lockdown as a result of Covid-19, the Council undertook additional PWLB borrowing to safeguard the Council against any potential cashflow impacts of Covid-19 and to manage the Council's exposure to Interest rate risks.

Borrowing Outturn for 2019/20

At the beginning and end of 2019/20, the Council's treasury position was as follows:

TABLE 5

	31 March 2019 Principal £m	Rate/ Return %	31 March 2020 Principal £m	Rate/ Return %
Fixed rate funding:				
- PWLB	174.135	5.52%	201.831	4.95%
-Local Authorities	28.000	0.70%	25.000	0.76%
-Market	1.931	0.00%	1.712	0.00%
Variable rate funding:				
- Market	51.950	5.35%	50.950	5.33%
Total debt	**256.016**	**4.92%**	**279.493**	**4.61%**
CFR	**307.680**		**309.450**	
Over / (under) borrowing	**(51.664)**		**(29.957)**	
Investments:				
- Internally managed	21.850	0.65%	39.657	0.80%
Total investments	**21.850**		**39.657**	

The Council's gross debt position Increased by £23.477m during 2019/20. A summary of the movement is outlined below.

Category of Debt	**Activity**	**£m**
Fixed - PWLB	New Borrowing	27.696
Fixed - Local Authorities	Repayment	(3.000)
Fixed - Market	Recategoristion and New Borrowing	(0.219)
Variable - Market	Recategorisation	(1.000)
Net Increase in Debt		23.477

In accordance with the agreed strategy and taking appropriate cognisance of investment concerns, both in terms of counterparty risk and low returns on investment, the Council used internal short-term cash reserves to temporarily fund its remaining borrowing requirement.

Rescheduling

No rescheduling was done during the year as the average differential between PWLB new borrowing rates and premature repayment rates made rescheduling not viable.

All investments at 31 March 2020 mature within one year in line with the Annual Treasury Management and Investment Strategy. (Indicator 7)

The maturity structure of the debt portfolio (Indicator 8) at 31 March 2020 is included in Table 6 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 6

	31 March 2019 Actual £m	31 March 2019 Actual %	31 March 2020 Actual £m	31 March 2020 Actual %
Under 12 months	66.908	26%	81.838	29%
12 months and within 24 months	16.091	6%	2.888	1%
24 months and within 5 years	3.205	1%	8.819	3%
5 years and within 10 years	11.469	4%	20.995	8%
10 years and within 20 years	24.830	62%	33.640	59%
20 years and within 30 years	-		12.425	
30 years and within 40 years	103.512		106.887	
40 years and within 50 years	20.000		2.000	
50 years and above	10.000		10.000	
Total Borrowing	**256.016**	**100%**	**279.493**	**100%**

Another 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 9)** and was as follows:

TABLE 7

	2018/19 Actual £m	2019/20 Limit £m	2019/20 Actual £m
Limit on fixed rate (principal)	204.066	306.895	228.543
Limit on variable rate (principal)	51.950	60.000	50.950

Estimates of prudent Loans Fund repayment

The purpose of the Loans Fund is to record advances for expenditure incurred or loans made to third parties which a local authority has determined are to be financed from borrowing as set out in Regulation 2 of The Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016 ["the Regulations"]. The Loans Fund advance is effectively the repayment of the 'principal' linked to the expenditure classified above which is unfinanced and is required to be funded from borrowing. Repayment of Loans Fund advances are required to be made in line with Scottish Government statutory guidance on Loans Fund Accounting.

The above regulations state that Council's may vary the period and/or amount of the repayments if they consider it prudent to do so. Following consideration of the revised Regulations, a review of the current methodology 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, currently 5% p.a. Based on having sufficient detailed records, it was agreed that advances made since 2008/09 would also be recalculated using the above method.

Although there was no change in the overall level of Loans Fund advances to be repaid, this resulted 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. Over the period of the current General Services Capital programme, and the equivalent period of the HRA Capital programme, reductions in repayments of £11.117 and £7.036m will be realised. Over the full period of advance repayments, the changes will result in an overall increase in interest costs of £2.820m for the General Fund and £5.652m for the HRA based on the current Capital Programmes as approved by Council. Any changes to the approved Programmes will impact on the movement.

The Authority's latest estimates of its Loans Fund account information are as follows:

Year	Opening Balance £m	Advances to GF £m	Advances to HRA £m	Repayment by GF £m	Repayment by HRA £m	Closing Balance £m
2018/19 actual	293.271	21.305	4.303	-8.806	-2.393	307.680
2019/20	307.680	5.807	7.510	-8.279	-3.268	309.450
2020/21 - 24/25	309.450	98.370	144.441	-26.759	-28.987	496.516
2025/26 - 29/30	496.516	0.224	0.000	-22.323	-38.984	435.432
2030/31 - 34/35	435.432	0.000	0.000	-24.883	-42.700	367.849
2035/36 - 39/40	367.849	0.000	0.000	-29.881	-45.959	292.009
2040/41 - 44/45	292.009	0.000	0.000	-32.195	-34.220	225.594
2045/46 - 49/50	225.594	0.000	0.000	-27.676	-20.293	177.625
2050/51 - 54/55	177.625	0.000	0.000	-27.170	-21.864	128.591
2055/56 - 59/60	128.591	0.000	0.000	-29.849	-22.787	75.955
2060/61 - 64/65	75.955	0.000	0.000	-30.572	-13.202	32.181
2065/66 & later	32.181	0.000	0.000	-32.181	0.000	0.000

(e) Affordability Prudential Indicators (Prudential Indicators 10 - 12)

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.

Actual financing costs as a proportion of net revenue stream

This indicator identifies the trend in the cost of capital (borrowing and other long-term obligation costs net of investment income) against the net revenue stream and is a measure of affordability for debt repayment. For 2019/20 this shows marginal reductions in both General Services and HRA from 2018/19. Capital expenditure impacts on the revenue budget through financing charges so it is essential the Council ensures the financing costs remain affordable and do not constitute an excessive proportion of the revenue resources available. From a General Fund perspective, the Scottish Local Authority average was 7.58%, therefore demonstrating a prudent borrowing policy. For the HRA, the level of loan charges is deemed prudent and affordable within the framework of the 30 year Housing business plan.

TABLE 8

Estimate of ratio of financing costs to net revenue stream	2018/19 Actual	2019/20 Estimate	2019/20 Actual
General Services	4.9%	4.8%	4.5%
HRA	15.0%	17.6%	17.1%

4. Investment Rates and Outturn 2019/20

Interest Rates

The Bank of England base remained steady at 0.75% for most of 19/20 until March when the rate was dropped to 0.25% then swiftly brought down further to the record low of 0.1%. Current indicators anticipate the rate remaining low during 20/21. As a result, deposit rates were marginally higher during 2019/20 but are anticipated to reduce during 20/21.

Investment Policy

The Council's investment policy is governed by Scottish Government investment regulations, which have been implemented in the annual investment strategy approved by the Council on 27 February 2019. This policy sets out the approach for choosing investment counterparties and is based upon: new bank resolution regulations, where failing banks will not be bailed-out but 'bailed-in' by unsecured investors that can include local authorities; the capacity of banks to absorb unexpected losses; and credit ratings provided by the leading credit rating agencies. This is supplemented by additional market data (such as economic data, credit default swaps, bank share prices etc.).

Resources

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

TABLE 9

Cash Balances	2018/19 Actual	2019/20 Actual
	£m	£m
1 April	26.000	21.850
31 March	21.850	39.657
Change in year	**(4.150)**	**17.807**

Investments held by the Council

The Council maintained an average balance of £25.963m of internally managed funds and utilised cash balances during the year in support of the under-borrowed position. The internally managed funds, primarily invested in call accounts with banks, Money Market Funds and other UK local authorities, earned a weighted average rate of return of 0.80%. This compares to a rate of 0.65% in 2018/19. Performance was above the target rate of 0.65% and reflects the UK Bank Rate, by remaining steady at 0.75% for most of 19/20, and the short term nature of our investments and our overall investment objectives of security and liquidity.

5. Performance Measurement

One of the key requirements in the Code is the formal introduction of performance measurement relating to investments, debt and capital financing activities. Whilst investment performance criteria have been well developed and universally accepted, debt performance indicators continue to be a more problematic area with the traditional average portfolio rate of interest acting as the main guide.

The Council's treasury management advisors are Arlingclose Limited. Arlingclose has six Scottish Local Authorities in their client group and provide regular investment benchmarking information to the Council. In terms of performance in 2019/20, North Ayrshire Council's average weighted rate of return on investments during 19/20 was 0.80% (18/19 0.65%) The actual rate of return on investments as at 31 March for North Ayrshire Council was 0.66% compared to the group average rate of 0.54%. This reflects the increased diversification of the Council's portfolio to maximise returns whilst minimising risk.

Emphasis will continue to be placed on investing with approved counterparties in accordance with the approved strategy.