NORTH AYRSHIRE COUNCIL

21 June 2023

North Ayrshire Council

Title:	**Treasury Management and Investment Annual Report 2022/23**
Purpose:	To report to Council on the Treasury Management and Investment Annual Report and Prudential Indicators for 2022/23.
Recommendation:	That Council notes : (a) the Treasury Management and Investment Annual Report for 2022/23 (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 2022/23. This is done through the publication of the annual report which contains the actual prudential and treasury indicators for 2022/23.

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 2022/23 for North Ayrshire Council is attached at Appendix 1. Key points to note from the report are as follows:

- During 2022/23, 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 lower than anticipated due to the revised profile of capital projects and the use of internal funds, the latter being a key element of the Treasury Management Strategy to minimise costs;
- The Capital Financing Requirement increased as a result of the Council's adoption of the revised accounting arrangements under Local Government Finance Circular 10/2022 for the recalculation of debt repayments arising from the Council's service concession contracts aligned to the useful economic life of the assets under the contracts; and

- The average loans fund pool rate reduced from 3.38% to 3.14%.

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 2022/23 Annual Treasury Management and Investment Strategy was approved by Council on 2nd March 2022 and the mid-year report was submitted to the Cabinet on 29 November 2022. This final outturn report ensures full compliance with the CIPFA Code of Practice.

2.2 **Current Position**

The 2022/23 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 2022/23 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 2022/23 Annual Treasury Management and Investment Strategy Statement (TMSS).

2.4 **Investment Update**

During 2022 North Ayrshire Council invested £5.000m with Woking Borough Council. This investment was made in line with the Treasury Management and Investment Strategy 2022/23. On 7 June 2023, Woking Borough Council was issued with a Section 114 notice which prevents the Council from entering into any new agreement or commitment for expenditure without the explicit agreement of the Section 151 Officer until the Council has met to consider the s114 report. However, contractual expenditure, including loan repayments remains necessary and allowable.

The Council’s treasury advisors recommend against any further lending to Woking Borough Council at this time but advise that there is no fear of loss on the current investment and, as such, the Council can expect the full amount of the loan, including any interest, to be repaid on its maturity date. Officers continue to monitor the situation.

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

2.5.1 **Capital Financing Costs** - the General Fund budget of £15.794m for financing costs and expenses on debt for 2022/23 was underspent by £4.483m, comparative information for the HRA was a budget of £12.519m and an underspend of £1.212m. The underspends are a result of a planned contribution to support the 10 year General Fund capital programme; the re-profiling of planned capital expenditure; the continuing strategy to delay new external borrowing by utilising cash balances, resulting in savings on external interest costs; and the use of temporary borrowing from other local authorities. In addition there was an in year underspend of £2.764m following the adoption of the revised accounting arrangements under Local Government Finance Circular 10/2022 for the recalculation of debt repayments arising from the Council's service concession contracts as approved by Council on 15 February 2023.

2.5.2 **Interest on Revenue Balances** - the General Fund budget of £0.140m for interest on its revenue balances with a reported over-recovery of £0.334m in 2022/23, comparative information for the HRA was a budget of £0.036m with a reported over-recovery of £0.139m. The overall over-recovery is reflective of the steadily rising bank rate during 2022/23.

2.5.3 In accordance with agreed policy, the net General Fund underspend of £7.581m has been transferred to the Loans Fund Reserve to support the funding strategy for the ten year capital investment programme.

3. Proposals

3.1 It is proposed that Council notes :

(a) the contents of the Treasury Management and Investment Annual Report for 2022/23 (Appendix 1); and

(b) the Prudential and Treasury Indicators contained therein.

4. Implications/Socio-economic Duty

Financial

4.1 Capital Financing underspends within General Fund of £7.581m have been transferred to the Loans Fund Reserve in line with agreed policy.

Within the HRA, the underspend of £1.351m has been utilised to offset in year budgetary pressures.

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.

Climate Change and Carbon

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 or DavidForbes@north-ayrshire.gov.uk**.

Background Papers
Treasury Management and Investment Mid-year Report 2022/23 – Cabinet 29 November 2022

North Ayrshire Council
Comhairle Siorrachd Àir a Tuath

Annual Treasury Management and Investment Report

2022/23

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Annual Treasury Management and Investment Report 2022/23

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 2022/23. This is done through the publication of the annual report and actual prudential and treasury indicators for 2022/23.

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 2022/23 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 2 March 2022)
- a mid-year treasury update report (submitted to the Cabinet on 29 November 2022)
- an annual review following the end of the year describing the activity compared to the strategy (this report)

In September 2022 the Scottish Government issued Finance Circular 10/2022 to all local authorities which enabled the application of a financial flexibility in relation to the accounting for service concession arrangements, leases and similar arrangements. In February 2023, North Ayrshire Council agreed to adopt this financial flexibility which resulted in the recalculation of debt repayments arising from the Council's service concession contracts aligned to the useful economic life of the assets under the contracts.

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 2022/23, 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	2021/22 Actual £m	2022/23* Estimate £m	2022/23 Actual £m
Capital expenditure **(Indicator 1)**			
General services	41.041	51.938	36.194
HRA	48.668	41.286	30.478
Total	**89.709**	**93.224**	**66.672**
Capital Financing Requirement (CFR):			
General services	197.355	203.831	219.809
HRA	155.633	174.824	164.255
Total	**352.988**	**378.655**	**384.064**
Gross borrowing **(Indicator 4)**	258.527	268.796	245.566
Operational Boundary **(Indicator 5)**	372.562	393.907	397.338
Authorised Limit **(Indicator 6)**	409.819	433.298	437.072
Investments **(Indicator 7)**	43.506	30.000	31.456

** All figures in this report reflect the latest estimate contained within the 2023/24 Annual Treasury Management and Investment Strategy*

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 increase to the requirement during 2022/23 reflects the adoption of the revised accounting arrangements under Local Government Finance Circular 10/2022 for the recalculation of debt repayments arising from the Council's service concession contracts aligned to the useful economic life of the assets under the contracts. The increase was partially offset by changes in the profile of the capital programme.

Gross Borrowing reflects the actual borrowing which has been undertaken, this was lower than anticipated due to the revised profile of capital projects and the use of internal funds, the latter being a key element of the Treasury Management Strategy to minimise costs.

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 largely to the use of internal funds, 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. No **new long term borrowing** took place in 2022/23.

The **average loans fund pool rate** is the total interest paid during the year as a percentage of the total loans fund advances. In 2022/23 this decreased from 3.38% to 3.14%.

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 2022/23 were 1.9% for the General Fund and 20.1% 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 in 2021/22 was 5.5%, therefore demonstrating a prudent borrowing policy. For the HRA, the Scottish average in 2021/22 was 22.7%. 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 1.69% compared to a target of 0.50%. The rate secured in 2021/22 was 0.15%. The higher return secured in 2022/23 is reflective of the steadily rising bank rate during 2022/23.

Other prudential and treasury indicators and supporting information can be found in the main body of this report.

Conclusion

The Head of Finance 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 2022/23

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 2022 (section d); and
- Affordability Prudential Indicators (section e);

(a) The Council's Capital Expenditure and Financing 2022/23 (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 2022/23 compared with the planned investment alongside the amount financed immediately and the amount which gave rise to borrowing.

TABLE 2

General Fund	2021/22 Actual £m	2022/23 Estimate £m	2022/23 Actual £m
Capital expenditure (Indicator 1)	**41.041**	**51.938**	**36.194**
Financed in year	24.386	41.113	33.702
Unfinanced capital expenditure	**16.655**	**10.825**	**2.492**

HRA	2021/22 Actual £m	2022/23 Estimate £m	2022/23 Actual £m
Capital expenditure (Indicator 1)	**48.668**	**41.286**	**30.478**
Financed in year	24.314	16.723	16.484
Unfinanced capital expenditure	**24.354**	**24.563**	**13.994**

(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.
During 22/23 the Scottish Government issued Finance Circular 10/2022 to all local authorities which enabled the application of a financial flexibility in relation to the accounting for service concession arrangements, leases and similar arrangements. In February 2023, North Ayrshire Council agreed to adopt this financial flexibility which resulted in charges to the General Fund being rescheduled over the 50 year useful economic life of the assets rather than the current contract terms. This will result in the release of a one-off retrospective repayment adjustment of £21.546m with a short to medium term reduction in the annual debt repayment charges over the period to 2037/38. The impact of this change during 2022/23 is a £24.311m increase to the Capital Financing Requirement.

Table 3 shows that, based on historic capital expenditure and this year's capital expenditure, the Council has a cumulative underlying need to borrow £384.064m at 31 March 2023.

TABLE 3

CFR	2021/22 Actual £m	2022/23 Estimate £m	2022/23 Actual £m
Opening balance	319.890	352.988	352.988
Add PPP/NPD liability	103.882	92.386	100.139
Revised Opening Balance	**423.772**	**445.374**	**453.127**
Add unfinanced capital expenditure (General Fund)	16.655	10.825	2.492
Add unfinanced capital expenditure (HRA)	24.354	24.563	13.994
Less Loans Fund Principal Repayments	(7.911)	(9.721)	14.590
Sub-total	**456.870**	**471.041**	**484.203**
Less PPP/NPD lease repayments	(103.882)	(92.386)	(100.139)
Closing balance (Indicator 2)	**352.988**	**378.655**	**384.064**
Annual Change (Indicator 3)	**33.098**	**25.667**	**31.076**

(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 2024/25). 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 £138.498m due to the continuing strategy to delay new external borrowing by utilising internal cash balances. The increase in the under borrowed position reflects the adoption of the financial flexibility in relation to the Council's service concession contracts along with the increased use of internal funds.

TABLE 4

	2021/22 Actual £m	2022/23 Estimate £m	2022/23 Actual £m
Gross borrowing position **(Indicator 4)***	258.527	268.796	245.566
CFR	352.988	378.655	384.064
(Under)/Over Borrowed Position	**(94.461)**	**(109.859)**	**(138.498)**

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)

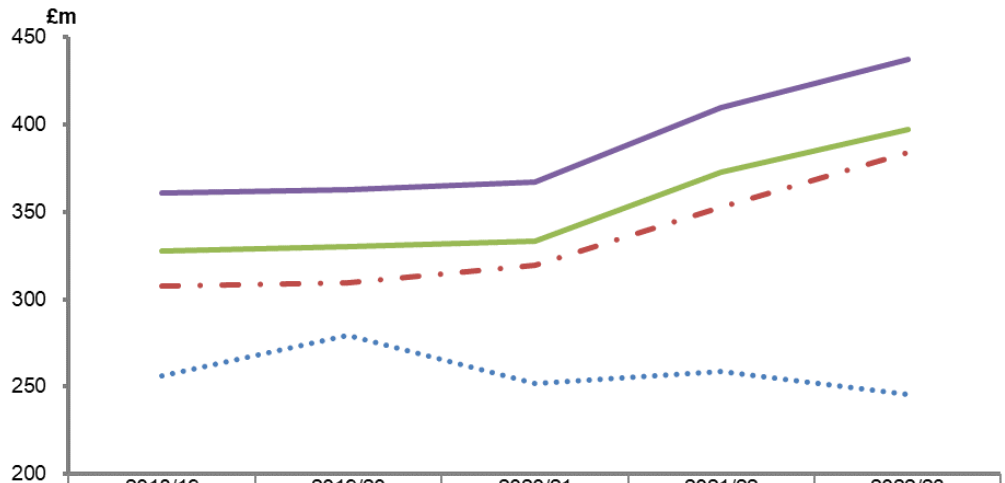
The authorised limit represents a limit beyond which external debt is prohibited. This limit is set by Council and can only be revised by Cabinet approval. It reflects the level of external borrowing which, while not desirable, could be afforded in the short term but is not sustainable in the longer 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 2022/23 the Council's gross borrowing was within both the operational boundary and the authorised limit by a significant margin, due largely to the continuing strategy to delay new external borrowing by utilising internal cash balances.

Information on the re-profiling of capital expenditure can be found in the 'Capital Programme Performance to 31 March 2023' report, presented to Cabinet on 29 May 2023.

NB: Figures exclude PPP

Borrowing Projection v Approved Limits



	2018/19	2019/20	2020/21	2021/22	2022/23
Gross Debt at 31 March	256.016	279.493	251.507	258.527	245.566
CFR (Borrowing need)	307.680	309.450	319.548	352.988	384.064
Operational Boundary	327.895	330.009	333.483	372.562	397.338
Authorised Limit	360.684	363.010	366.832	409.819	437.072

(d) Treasury Position at 31 March 2023 (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 2022/23

The borrowing strategy for 2022/23 anticipated bank interest rates rising to 1% during 2022/23 and fixed borrowing rates to remain steady. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period.

The Council has a strategy of taking a combination of temporary and permanent borrowing in recognition of the Council's longer term borrowing requirements and the market rates available at that time. This balances short term financial savings with longer term security of costs. During 2022/23 the Council undertook no new borrowing.

The cost of both long and short-term borrowing rose dramatically over the year, with rates at the end of March around 2% - 4% higher than those at the beginning of April. Rate rises have been driven primarily by inflation and the need for central banks to control this by raising interest rates. Particularly dramatic rises were seen in September after the Governments 'mini-budget': over a twenty-four-hour period some PWLB rates increased to 6%. Rates have now fallen from September peaks but remain volatile and well above recent historical norms. The PWLB 20 year maturity certainty rate stood at 4.70% at 31st March compared to 2.7% at the start of 22/23. As a result of the increased borrowing rates, the Council's current strategy is to use internal funds instead of borrowing where possible.

The Bank of England increased the official Bank rate to 4.25% during the year from 0.75% in March 2022 to tackle the rising, persistent inflation during the year.

A new HRA PWLB rate of gilt yield plus 0.4% (0.4% below the currently available certainty rate) was announced on 15th March 2023. This discounted rate is to support local authorities borrowing for Housing Revenue Accounts and the delivery of social housing and is expected to be available from June 2023, initially for a period of one year.

Borrowing Outturn for 2022/23

At the beginning and end of 2022/23, the Councils treasury position was as follows:

TABLE 5

	31 March 2022 Principal £m	Rate/ Return %	31 March 2023 Principal £m	Rate/ Return %
Fixed rate funding:				
- PWLB	181.055	4.68%	178.167	4.72%
-Local Authorities	25.000	0.10%	15.000	1.62%
-Market	1.522	8.40%	1.449	8.83%
Variable rate funding:				
- Market	50.950	5.10%	50.950	5.10%
Total debt	**258.527**	**4.34%**	**245.566**	**4.63%**
CFR	**352.988**		**384.064**	
Over / (under) borrowing	**(94.461)**		**(138.498)**	
Investments:				
- Internally managed	43.506	0.15%	31.456	0.73%
Total investments	**43.506**		**31.456**	

The Council's gross debt position decreased by £12.961m during 2022/23. A summary of the movement is outlined below.

Category of Debt	Activity	£m
Fixed - PWLB	Repayment	(2.888)
Fixed - Local Authorities	Repayment	(10.000)
Fixed - Market	Repayment	(0.073)
Net Decrease in Debt		(12.961)

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 2023 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 2023 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 2022 Actual £m	31 March 2021 Actual %	31 March 2023 Actual £m	31 March 2022 Actual %
Under 12 months	76.911	30%	43.481	18%
12 months and within 24 months	2.950	1%	2.950	1%
24 months and within 5 years	10.050	4%	6.207	3%
5 years and within 10 years	24.439	9%	21.639	9%
10 years and within 20 years	28.665		33.177	
20 years and within 30 years	6.625		6.225	
30 years and within 40 years	106.887	56%	106.887	70%
40 years and within 50 years	2.000		15.000	
50 years and above	-		10.000	
Total Borrowing	**258.527**	**100%**	**245.566**	**100%**

* Note that for 22/23 LOBOs of £25.950m have been shown as under 12 months to reflect the ability of these to be called in by the investor at any time. This does not change the maturity date but simply reflects the nature of the debt. The likelihood of these being called in is very low.

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

	2021/22 Actual £m	2022/23 Limit £m	2022/23 Actual £m
Limit on fixed rate (principal)	207.577	306.895	194.616
Limit on variable rate (principal)	50.950	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 Council'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
2022/23 Actual	352.988	2.492	13.994	19.962	-5.372	384.064
2023/24 - 27/28	384.064	237.761	216.700	-12.804	-44.722	781.000
2028/29 - 32/33	781.000	1.571	63.927	-17.093	-57.208	772.197
2033/34 - 37/38	772.197	0.000	78.950	-15.327	-80.733	755.087
2038/39 - 42/43	755.087	0.000	118.549	-51.224	-104.773	717.638
2043/44 - 47/48	717.638	0.000	0.000	-73.260	-104.678	539.700
2048/49 - 52/53	539.700	0.000	0.000	-89.347	-94.854	355.500
2053/54 - 57/58	355.500	0.000	0.000	-76.920	-84.985	193.594
2058/59 - 62/63	193.594	0.000	0.000	-42.481	-61.411	89.701
2063/64 - 67/68	89.701	0.000	0.000	-40.377	-9.018	40.306
2068/69 & later	40.306	0.000	0.000	-40.306	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. Actuals for 2022/23 were 1.9% for the General Fund and 20.1% for the Housing Revenue Account. The rising ratio within the HRA is indicative of the significant capital investment programme as outlined in the Strategic Housing Investment Plan. 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 in 2021/22 was 5.5%, therefore demonstrating a prudent borrowing policy. For the HRA, the Scottish average was 22.7%. 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	2021/22 Actual	2022/23 Estimate	2022/23 Actual
General Services	2.5%	2.9%	1.9%
HRA	18.7%	20.9%	20.1%

4. Investment Rates and Outturn 2022/23

Interest Rates

The Bank of England increased the official Bank rate to 4.25% during the year from 0.75% in March 2022 to tackle the rising, persistent inflation during the year. Deposit rates have increased during 2022/23 as a result.

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 2 March 2022. 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	2021/22 Actual	2022/23 Actual
	£m	£m
1 April	42.258	43.506
31 March	43.506	31.456
Change in year	**1.249**	**(12.050)**

The above investment portfolio includes a £5m loan to Woking Borough Council until 23 October 2023. The Council is aware that the Woking Borough Council was issued with a Section 114 notice on the 7 June 2023 which prevents the Council from entering into any new agreement or commitment for expenditure without the explicit agreement of the Section 151 Officer until the Council has met to consider the s114 report. However, contractual expenditure, including loan repayments remains necessary and allowable.

Arlingclose recommend against any new lending to Woking Borough Council until the financial position stabilises but advise that our current loan arrangement is protected under sections 6 and 13 of the Local Government Act 2003 and, as such, we can expect the full amount of the loan, including any interest payments to be recovered on the maturity date. Officers continue to monitor the situation.

Investments held by the Council

The Council maintained an average balance of £42.281m 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 1.69%. This compares to a rate of 0.15% in 2021/22. Performance was above the target rate of 0.50% and reflects the steady rises in the bank rate during 2022/23 and the short term nature of our investments and our overall investment objectives of security and liquidity.

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 five Scottish Local Authorities in their client group and provide regular investment benchmarking information to the Council. In terms of performance in 2022/23, North Ayrshire Council's average weighted rate of return on investments during 22/23 was 1.69% (21/22 0.15%). The actual rate of return on investments as at 31 March for North Ayrshire Council was 3.60% compared to the group average rate of 3.90%.

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