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## NORTH AYRSHIRE COUNCIL

26 June 2019

### North Ayrshire Council

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<b>Title:</b>	<b>Treasury Management and Investment Annual Report 2018/2019</b>
<b>Purpose:</b>	To report to Council on the Treasury Management and Investment Annual Report and Prudential Indicators for 2018/19.
<b>Recommendation:</b>	That Council notes (a) the Treasury Management and Investment Annual Report for 2018/19 (Appendix 1); and (b) the Prudential and Treasury Indicators contained therein.

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#### 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 2018/19. This is done through the publication of the annual report which contains the actual prudential and treasury indicators for 2018/19.
- 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 2018/19 for North Ayrshire Council is attached at Appendix 1. Key points to note from the report are as follows:
  - During 2018/19, 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 and, through the continued use of internal funds, has contributed to lower levels of borrowing in 2018/19. This has impacted on a number of treasury indicators including a decrease in the Capital Financing Requirement (CFR) and ratio of financing costs to net revenue streams for both General fund and HRA, with current borrowing levels well within the limits set across both the Operational Boundary and Authorised Limit;
  - The average loans fund pool rate reduced slightly from 4.10% to 4.00%; and
  - Lower investment returns relative to budget reflect the current interest rates being offered by the market.

## **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 2018/19 Annual Treasury Management and Investment Strategy was approved by Council on 28 February 2018 and the mid-year report was submitted to the Cabinet on 13 November 2018. This final outturn report ensures full compliance with the CIPFA Code of Practice.

### **2.2 Current Position**

The 2018/19 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 2018/19 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 2018/19 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 budget of £19.715m for financing costs and expenses on debt for 2018/19 was underspent by £2.833m, comparative information for the HRA was a budget of £7.998m and an underspend of £0.660m. The underspends are a result of slippage on 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.

- 2.4.2 **Interest on Revenue Balances** - the General Fund budget of £0.387m for interest on its revenue balances with a reported under-recovery of £0.150m in 2018/19, comparative information for the HRA was a budget of £0.058m with a reported over recovery of £0.006m. This reflects lower interest rates being offered by counterparties than previously anticipated due to the short term nature of investments required to align cash flow commitments alongside the actual profile of expenditure during 2018/19. Budgets have been re-aligned in 2019/20 to reflect current interest rate levels.

- 2.4.3 In accordance with agreed policy, the net General Fund underspend has been transferred to the Loans Fund Reserve to support the funding strategy for the ten year capital investment programme.

## **3. Proposals**

- 3.1 That Council notes (a) the contents of the Treasury Management and Investment Annual Report for 2018/19 (Appendix 1); and (b) the Prudential and Treasury Indicators contained therein.

#### 4. Implications/Socio-economic Duty

<b>Financial:</b>	Capital Financing underspends within General Fund of £2.683m have been transferred to the Loans Fund Reserve in line with agreed policy.  Within the HRA, the underspend of £0.666m has been transferred to the HRA Council House Building Fund.
<b>Human Resources:</b>	None
<b>Legal:</b>	The Local Government in Scotland Act 2003 and supporting regulations require the Council to produce an annual review of treasury management activities.
<b>Equality/Socio-economic Duty:</b>	None
<b>Children and Young People:</b>	None
<b>Environmental &amp; Sustainability:</b>	None
<b>Key Priorities:</b>	The Treasury Management and Investment Annual Report directly supports the Council Plan 2019 to 2024 by maximising resources and providing value for money to support financially sustainable delivery models.
<b>Community Benefits:</b>	None

#### 5. Consultation

5.1 The Council's treasury advisors were consulted during the preparation of this report.

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LAURA FRIEL

Executive Director (Finance and Corporate Support)

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#### Background Papers

Treasury Management and Investment Strategy 2018/19 – North Ayrshire Council – 28 February 2018



**North Ayrshire Council**  
Comhairle Siorrachd Àir a Tuath

# **Annual Treasury Management and Investment Report**

2018/19



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# Annual Treasury Management and Investment Report 2018/19

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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 2018/19. This is done through the publication of the annual report and actual prudential and treasury indicators for 2018/19.

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 2018/19 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 28 February 2018)
- a mid-year treasury update report (submitted to the Cabinet on 13 November 2018)
- 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 2018/19, 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	2017/18 Actual £m	2018/19 * Estimate £m	2018/19 Actual £m
Capital expenditure ( <b>Indicator 1</b> )			
General services	32.006	39.522	32.006
HRA	25.510	31.115	28.990
<b>Total</b>	<b>57.516</b>	<b>70.637</b>	<b>60.996</b>
Capital Financing Requirement (CFR):			
General services	174.869	187.447	187.368
HRA	118.402	120.415	120.312
<b>Total</b>	<b>293.271</b>	<b>307.862</b>	<b>307.680</b>
Gross borrowing ( <b>Indicator 4</b> )	238.227	282.862	256.016
Operational Boundary ( <b>Indicator 5</b> )	310.491	333.691	327.895
Authorised Limit ( <b>Indicator 6</b> )	341.540	367.060	360.684
Investments ( <b>Indicator 7</b> )			
• Longer than 1 year	-	-	-
• Under 1 year	26.000	20.000	21.850
• <b>Total</b>	<b>26.000</b>	<b>20.000</b>	<b>21.850</b>

*\* All figures in this report reflect the latest estimate contained within the 2019/20 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 reduction to the requirement during 2018/19 reflects the change in 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 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, therefore minimising costs. During 2018/19 the Council undertook long term borrowing of £20m in support of the agreed capital investment programme. 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 2018/19 this marginally decreased from 4.10% to 4.00%.

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 20.3% 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 2018/19 were 4.9% for the General Fund and 15% for the Housing Revenue Account. From a General Fund perspective, the Scottish Local Authority average was 7.75%, therefore demonstrating a prudent borrowing policy. For the HRA, this is aligned to the 30 year business plan.

The **average internal investment** rate was 0.65% compared to a target of 0.35%. This was broadly in line with the performance of other local authorities which averaged at 0.79%. The rate secured in 2017/18 was 0.37%. The performance in 2018/19 reflects the rise in UK Bank Rate by 0.25% in August 2018 and the short term nature of our investments and our overall investment objectives of security and liquidity.

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

### **Conclusion**

The Executive Director (Finance and Corporate Support) 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 2018/19

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 2019 (section d); and
- Affordability Prudential Indicators (section e);

#### (a) The Council's Capital Expenditure and Financing 2018/19 (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 2018/19 compared with the planned investment alongside the amount financed immediately and the amount which gave rise to borrowing.

**TABLE 2**

<b>General Fund</b>	<b>2017/18 Actual £m</b>	<b>2018/19 Estimate £m</b>	<b>2018/19 Actual £m</b>
<b>Capital expenditure (Indicator 1)</b>	<b>32.006</b>	<b>39.522</b>	<b>32.006</b>
Financed in year	32.006	18.139	10.701
<b>Unfinanced capital expenditure</b>	<b>-</b>	<b>21.383</b>	<b>21.305</b>

<b>HRA</b>	<b>2017/18 Actual £m</b>	<b>2018/19 Estimate £m</b>	<b>2018/19 Actual £m</b>
<b>Capital expenditure (Indicator 1)</b>	<b>25.510</b>	<b>31.115</b>	<b>28.990</b>
Financed in year	22.027	26.699	24.687
<b>Unfinanced capital expenditure</b>	<b>3.483</b>	<b>4.416</b>	<b>4.303</b>

## (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 £307.680m at 31 March 2019.

**TABLE 3**

CFR	2017/18 Actual £m	2018/19 Estimate £m	2018/19 Actual £m
Opening balance	300.916	293.271	293.271
Add new PPP/NPD liability	111.053	106.105	107.896
<b>Revised Opening Balance</b>	<b>411.969</b>	<b>399.376</b>	<b>401.167</b>
Add unfinanced capital expenditure (General Fund)	-	21.383	21.305
Add unfinanced capital expenditure (HRA)	3.483	4.416	4.303
Less Loans Fund Principal Repayments	(11.128)	(11.209)	(11.199)
<b>Sub-total</b>	<b>404.324</b>	<b>413.966</b>	<b>415.576</b>
Less PPP/NPD lease repayments	(111.053)	(106.105)	(107.896)
<b>Closing balance (Indicator 2)</b>	<b>293.271</b>	<b>307.861</b>	<b>307.680</b>
<b>Annual Change (Indicator 3)</b>	<b>(7.645)</b>	<b>14.590</b>	<b>14.409</b>

## (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 2020/21). 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 £51.664m due to the continuing strategy to delay new external borrowing by utilising internal cash balances.

**TABLE 4**

	2017/18 Actual £m	2018/19 Estimate £m	2018/19 Actual £m
Gross borrowing position (Indicator 4)*	238.227	282.862	256.016
CFR	293.271	307.862	307.680
(Under)/Over Borrowed Position	(55.044)	(25.000)	(51.664)

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 is acceptable subject to the authorised limit not being breached.

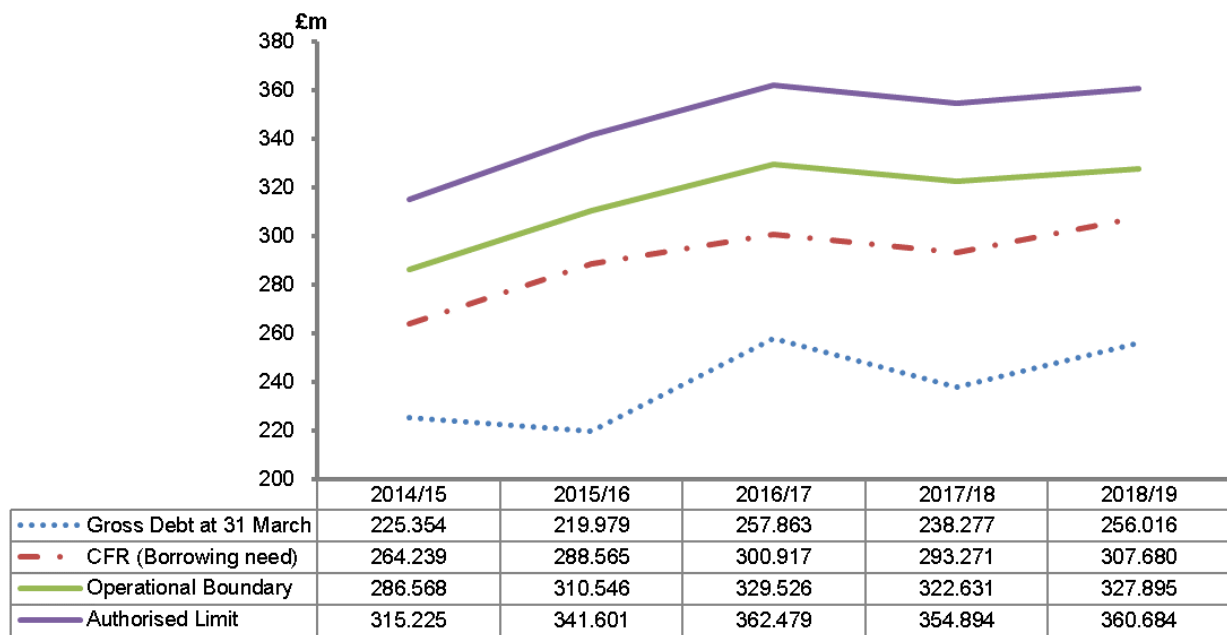
### The Authorised Limit (Indicator 6)

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 2018/19 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 11 June 2019.

**Borrowing Projection v Approved Limits**



## (d) Treasury Position at 31 March 2019 (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 2018/19

The Borrowing Strategy for 2018/19 anticipated bank interest rates rising gradually during 2018 and 2019 taking the bank rate from 0.5% to 1.25% in 2019. Variable, or short-term rates, were expected to be the more cost effective form of borrowing over the period. Continued uncertainty in the economy promotes a cautious approach, meaning that investments continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

However, as the year progressed Long Term borrowing rates became more attractive and, in recognition of the Council's current under borrowed position and future borrowing requirements, the Council undertook £20m of long term borrowing. 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.

## Borrowing Outturn for 2018/19

At the beginning and end of 2018/19 the Council's treasury position was as follows:

**TABLE 5**

	31 March 2018 Principal £m	Rate/ Return %	31 March 2019 Principal £m	Rate/ Return %
Fixed rate funding:				
- PWLB	154.379	5.59%	174.135	5.52%
-Local Authorities	30.000	0.45%	28.000	0.70%
-Market	14.898	4.90%	27.931	4.70%
Variable rate funding:				
- Market	38.950	5.41%	25.950	5.88%
<b>Total debt</b>	<b>238.227</b>	<b>4.87%</b>	<b>256.016</b>	<b>4.94%</b>
<b>CFR</b>	<b>293.271</b>		<b>307.680</b>	
<b>Over / (under) borrowing</b>	<b>(55.044)</b>		<b>(51.664)</b>	
Investments:				
- Internally managed	26.000	0.37%	21.850	0.65%
<b>Total investments</b>	<b>26.000</b>		<b>21.850</b>	

The Council's gross debt position Increased by £17.789m during 2018/19. A summary of the movement is outlined below.

Category of Debt	Activity	£m
Fixed - PWLB	New Borrowing	19.756
Fixed - Local Authorities	Repayment	(2.000)
Fixed - Market	Recategorisation and New Borrowing	13.033
Variable - Market	Recategorisation	(13.000)
Net Increase in Debt		17.789

Due to 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. During the year the Council reviewed its LOBO loans and, whilst there was a repayment proposal from one of the lenders, this was not considered to be financially viable.

All investments at 31 March 2019 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 2019 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 2018 Actual £m	31 March 2018 Actual %	31 March 2019 Actual £m	31 March 2019 Actual %
Under 12 months	30.436	13%	66.908	26%
12 months and within 24 months	11.953	5%	16.091	6%
24 months and within 5 years	15.376	6%	3.205	1%
5 years and within 10 years	1.350	1%	11.469	4%
10 years and within 20 years	20.000	75%	24.830	62%
20 years and within 30 years	-		-	
30 years and within 40 years	113.112		103.51	
40 years and within 50 years	36.000		20.000	
50 years and above	10.000		10.000	
<b>Total Borrowing</b>	<b>238.227</b>	<b>100%</b>	<b>256.016</b>	<b>100%</b>

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**

	2017/18 Actual £m	2018/19 Limit £m	2018/19 Actual £m
Limit on fixed rate (principal)	199.277	306.895	230.066
Limit on variable rate (principal)	38.950	60.000	25.950

#### 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 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
2017/18 actual	300.916	0.000	3.483	-8.931	-2.197	293.271
2018/19	293.271	21.305	4.303	-8.806	-2.393	307.680
2019/20 - 23/24	307.680	85.319	116.991	-32.683	-23.781	453.527
2024/25 - 28/29	453.527	0.000	0.000	-30.247	-42.138	381.142
2029/30 - 33/34	381.142	0.000	0.000	-21.496	-46.060	313.586
2034/35 - 38/39	313.586	0.000	0.000	-25.515	-37.074	250.996
2039/40 - 43/44	250.996	0.000	0.000	-33.109	-27.745	190.142
2044/45 - 48/49	190.142	0.000	0.000	-35.992	-18.222	135.929
2049/50 - 53/54	135.929	0.000	0.000	-27.109	-19.013	89.807
2054/55 - 58/59	89.807	0.000	0.000	-19.372	-16.012	54.422
2059/60 - 63/64	54.422	0.000	0.000	-18.893	-7.323	28.206
2064/65 & later	28.206	0.000	0.000	-28.206	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 2018/19 this shows marginal reductions in both General Services HRA from 2017/18. From a General Fund perspective, the Scottish Local Authority average was 7.75%, therefore demonstrating a prudent borrowing policy. For the HRA, this is aligned to the 30 year business plan.

**TABLE 8**

Estimate of ratio of financing costs to net revenue stream	2017/18 Actual	2018/19 Estimate	2018/19 Actual
General Services	5.0%	5.1%	4.9%
HRA	15.2%	16.2%	15.0%

## 4. Investment Rates and Outturn 2018/19

### Interest Rates

In August 2018 the Bank of England base rate changed from 0.5% to 0.75%. Initial market expectation was that there would be gradual rate increases during 2018 and 2019 up to 1.25%. Current indicators anticipate low but rising interest rates during 2019-20. Deposit rates have increased marginally during 2018/19 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 28 February 2018. 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	2017/18 Actual	2018/19 Actual
	£m	£m
1 April	15.450	26.000
31 March	26.000	21.850
<b>Change in year</b>	<b>10.550</b>	<b>(4.150)</b>

### Investments held by the Council

The Council maintained an average balance of £21.840m 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 0.65%. This compares to a rate of 0.37% in 2017/18. Performance was above the target rate of 0.35% and reflects the rise in UK Bank Rate by 0.25% in August 2018 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 2018/19, North Ayrshire Council's average weighted rate of return on investments of 0.65% compared to the group average rate of 0.79%. This reflects the broader treasury management strategy implications of using internal borrowing and the resulting short term nature of our investments alongside the market rates on offer for these terms.

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