NORTH AYRSHIRE COUNCIL

27 June 2018

North Ayrshire Council

Title:	**Treasury Management and Investment Annual Report 2017/18**
Purpose:	To report to Council on the Treasury Management and Investment Annual Report and Prudential Indicators for 2017/18.
Recommendation:	That the Council notes (a) the Treasury Management and Investment Annual Report for 2017/18 (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 Annual Treasury Management and Investment Strategy, updated in the Mid-Year Report. This is done through the publication of the annual report which contains the actual prudential and treasury indicators for 2017/18.

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 2017/18 for North Ayrshire Council is attached at Appendix 1. Key points to note from the report are as follows:

- During 2017/18, 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 2017-18. This has impacted on a number of treasury indicators including a decrease in the Capital Financing Requirement (CFR), affordability indicators, with current borrowing levels well within the limits set across both the Operational Boundary and Authorised Limit;
- The average loans fund pool rate stayed relatively consistent at 4.09%; and
- Lower investment returns relative to budget reflect the reduction in 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 2017/18 Annual Treasury Management and Investment Strategy was approved by Council on 1 March 2017 and the mid-year report was submitted to the Cabinet on 14 November 2017. This final outturn report ensures full compliance with the CIPFA Code of Practice.

2.2 Current Position

The 2017/18 annual report is attached at Appendix 1 and covers:

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

2.3 Statutory Requirements

During 2017/18 the Council complied with its legislative and regulatory requirements. It is a statutory duty for the Council to determine and keep under review it’s 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 2017/18 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 £19.271m for financing costs and expenses on debt for 2017/18 was underspent by £2.870m, comparative information for the HRA was a budget of £7.205m and an underspend of £0.240m. The underspends are a result of;

- 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 local authorities at an average rate of 0.45%, comparing favourably with the average PWLB 1 year borrowing rate for 2017/18 of 1.11%.

The General Fund outturn aligns with the funding strategy for the ten year capital investment programme.

2.4.2 Interest on Revenue Balances - the General Fund budget of £0.387m for interest on its revenue balances with actual interest being £0.155m in 2017/18, comparative information for the HRA was a budget of £0.120m and £0.032m respectively. 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 2017/18.

3. Proposals

3.1 It is proposed that the Council notes (a) the contents of the Treasury Management and Investment Annual Report for 2017/18 (Appendix 1); and (b) the Prudential and Treasury Indicators contained therein.

4. Implications

Financial:	None
Human Resources:	None
Legal:	The Local Government in Scotland Act 2003 and supporting regulations require the Council to produce an annual review of treasury management activities.
Equality:	None
Environmental & Sustainability:	None
Key Priorities:	The Treasury Management Strategy aligns with the Council Plan by contributing to “a sound financial position” and “making the best use of all resources” as referred to under the banner of Underpinning our Priorities.
Community Benefits:	None

5. Consultation

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

LAURA FRIEL
Executive Director (Finance and Corporate Support)

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

Background Papers

Treasury Management and Investment Strategy 2017/18, North Ayrshire Council, 1 March 2017;
Treasury Management Mid Year Report 2017/18, Cabinet, 14 November 2017.

North Ayrshire Council
Comhairle Siorrachd Àir a Tuath

Annual Treasury Management and Investment Report

2017/18

PublicFinance INNOVATION AWARDS 2017
FINALIST

Contents Page

Annual Treasury Management and Investment Report 2017/18

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 Annual Treasury Management and Investment Strategy, updated in the Mid-Year Report. This is done through the publication of the annual report and actual prudential and treasury indicators for 2017/18.

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 2017/18 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 1 March 2017)
- a mid-year treasury update report (submitted to the Cabinet on 14 November 2017)
- 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 2017/18, 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	2016/17 Actual £m	2017/18 * Estimate £m	2017/18 Actual £m
Capital expenditure **(Indicator 1)**			
General services	48.712	45.586	32.006
HRA	22.935	27.246	25.510
Total	**71.647**	**72.832**	**57.516**
Capital Financing Requirement (CFR):			
General services	183.800	174.869	174.869
HRA	117.117	120.244	118.402
Total	**300.917**	**295.113**	**293.271**
Gross borrowing **(Indicator 4)**	257.863	285.112	246.321
Operational Boundary **(Indicator 5)**	329.526	319.407	314.388
Authorised Limit **(Indicator 6)**	362.479	351.348	345.827
Investments **(Indicator 7)**			
· Longer than 1 year	-	-	-
· Under 1 year	15.450	10.000	26.000
· **Total**	**15.450**	**10.000**	**26.000**

** All figures in this report reflect the latest estimate contained within the 2018/19 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 2017/18 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 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 year 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. No **new long term borrowing** took place in 2017/18. The Council continues to refinance maturing temporary loans by borrowing from other local authorities at rates below 1% which has helped to keep borrowing costs low.

The **average loans fund pool rate** is the total interest paid during the year as a percentage of the total loans fund advances. In 2017/18 this marginally increased from 4.09% to 4.10%.

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 21.6% of the Council's loans are at a variable rate, which is in line with the strategy.

Affordability of borrowing is measured by a number of indicators;

- Impact of additional borrowing on Council Tax; shows a notional annual reduction of £10.11 per annum for Council Tax based on a Band D property.
- Impact of additional borrowing on Housing Rents; shows a notional annual increase of £6.10 per week based on the average housing rent.
- The percentage of financing costs relative to the net revenue stream of the General Fund and Housing Revenue Account; the percentage values were in line with the estimate for the General Fund and lower than estimated for the Housing Revenue Account. Actuals for 2017/18 were 5% for the General Fund and 14.8% for the Housing Revenue Account.

The Affordability Indicators noted above for Council Tax and Housing Rents are notional and 2017/18 represents the final year of publication.

The **average internal investment** rate was 0.37% compared to a target of 0.4%; 0.31% was secured in 2016/17 and the 2017/18 performance of other Scottish local authorities of 0.46%. This reflects the short term nature of our investments and the market rates on offer for this term.

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 2017/18

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 2018 (section d); and
- Affordability Prudential Indicators (section e);

(a) The Council's Capital Expenditure and Financing 2017/18 (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 has 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 2017/18 compared with the planned investment alongside the amount financed immediately and the amount which gave rise to borrowing.

TABLE 2

General Fund	2016/17 Actual £m	2017/18 Estimate £m	2017/18 Actual £m
Capital expenditure (Indicator 1)	**48.712**	**45.586**	**32.006**
Financed in year	25.459	45.586	32.006
Unfinanced capital expenditure	**23.253**	**-**	**-**

HRA	2016/17 Actual £m	2017/18 Estimate £m	2017/18 Actual £m
Capital expenditure (Indicator 1)	**22.935**	**27.246**	**25.510**
Financed in year	22.935	21.922	22.027
Unfinanced capital expenditure	**-**	**5.324**	**3.483**

(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, through the Public Works Loan Board [PWLB] 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 of £292.961m at 31 March 2018.

TABLE 3

CFR	2016/17 Actual £m	2017/18 Estimate £m	2017/18 Actual £m
Opening balance	288.565	300.916	300.916
Add new PPP/NPD liability	66.462	110.151	111.053
Revised Opening Balance	**355.027**	**411.067**	**411.969**
Add unfinanced capital expenditure (General Fund)	23.253	-	-
Add unfinanced capital expenditure (HRA)	-	5.324	3.483
Less Loans Fund Principal Repayments	(10.902)	(11.128)	(11.128)
Sub-total	**367.378**	**405.263**	**404.324**
Less PPP/NPD lease repayments	(66.462)	(110.151)	(111.053)
Closing balance (Indicator 2)	**300.916**	**295.112**	**293.271**
Annual Change (Indicator 3)	**12.351**	**(5.804)**	**(7.645)**

(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 2019/20). 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 £46.641m due to the continuing strategy to delay new external borrowing by utilising internal cash balances.

TABLE 4

	2016/17 Actual £m	2017/18 Estimate £m	2017/18 Actual £m
Gross borrowing position **(Indicator 4)***	257.863	285.112	246.321
CFR	300.917	295.113	293.271
(Under)/Over Borrowed Position	**(43.054)**	**(10.001)**	**(46.951)**

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)

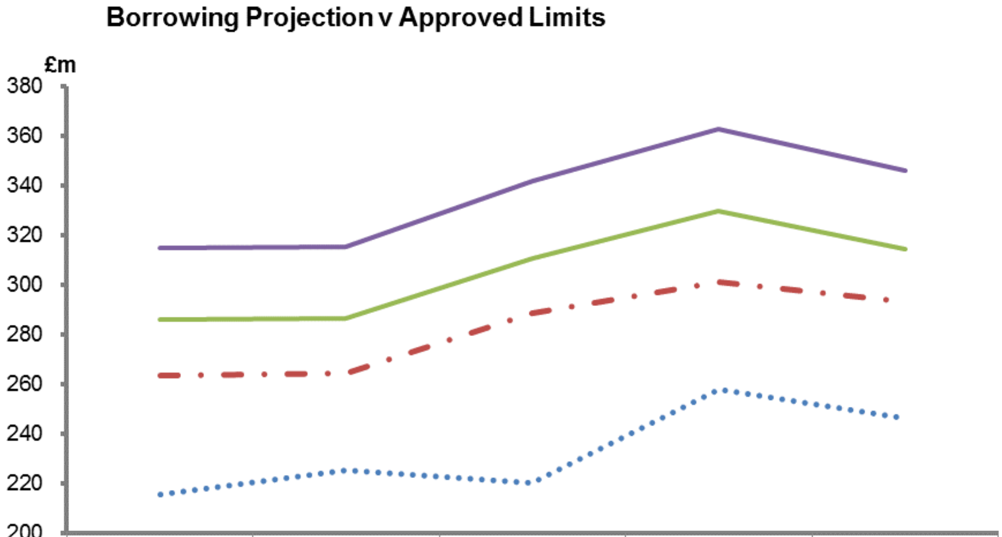
The operational boundary is the expected maximum borrowing position of the Council during the year, taking account of the timing of various funding streams and the recharge of principal repayments from the revenue account. Periods where the actual position varies from the boundary is acceptable subject 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 graph opposite demonstrates that during 2017/18 the Council's gross borrowing was within both the operational boundary and its 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 'Unaudited Annual Accounts 2017/18' report, being presented to North Ayrshire Council on 27 June 2018.



	2013/14	2014/15	2015/16	2016/17	2017/18
Gross Debt at 31 March	215.360	225.354	219.979	257.863	246.321
CFR (Borrowing need)	263.323	264.239	288.565	300.917	293.271
Operational Boundary	286.146	286.568	310.546	329.526	314.388
Authorised Limit	314.761	315.225	341.601	362.479	345.827

(d) Treasury Position at 31 March 2018 (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 2017/18

The Borrowing Strategy for 2017/18 anticipated bank interest rates remaining at 0.25% during 2017/18 and gradual rises in medium and longer-term fixed borrowing rates during 2017/18. 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.

Given this scenario, the treasury strategy is to postpone some long-term borrowing to avoid the cost of holding higher levels of investments and to reduce counterparty risk.

Borrowing Outturn for 2017/18

At the beginning and the end of 2017/18 the Council's treasury position was as follows:

TABLE 5

	31 March 2017 Principal £m	Rate/ Return %	31 March 2018 Principal £m	Rate/ Return %
Fixed rate funding:				
- PWLB	154.379	5.59%	154.379	5.59%
-Local Authorities	50.000	0.42%	38.244	0.45%
-Market	0.384	0.00%	0.598	0.00%
Variable rate funding:				
- Market	53.100	5.35%	53.100	5.35%
Total debt	**257.863**	**4.53%**	**246.321**	**4.73%**
CFR	**300.917**		**293.271**	
Over / (under) borrowing	**(43.054)**		**(46.950)**	
Investments:				
- Internally managed	15.450	0.30%	26.000	0.37%
Total investments	**15.450**		**26.000**	

The Council's gross debt position decreased by £11.542m during 2017/18. A summary of the movement is outlined below.

Category of Debt	Activity	£m
Fixed - Local Authorities	Repayment	(11.756)
Fixed - Market	New Borrowing	0.214
Net Reduction in Debt		(11.542)

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.

All investments at 31 March 2018 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 2018 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 2017 Actual £m	Upper Limit on Borrowing %	31 March 2018 Actual £m	31 March 2018 Actual %
Under 12 months	85.986	25%	38.679	16%
12 months and within 24 months	0.036	25%	11.953	5%
24 months and within 5 years	27.168	50%	15.226	6%
5 years and within 10 years	1.161	75%	1.350	1%
10 years and within 20 years	20.000	90%	20.000	73%
20 years and within 30 years	-		0.000	
30 years and within 40 years	72.012		113.11	
40 years and within 50 years	51.500		36.000	
50 years and above	-		10.000	
Total Borrowing	**257.863**		**246.321**	**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

	2016/17 Actual £m	2017/18 Limit £m	2017/18 Actual £m
Limit on fixed rate (principal)	204.763	302.088	193.221
Limit on variable rate (principal)	53.100	60.000	53.100

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
2016/17 actual	288.566	23.253	0.000	-8.929	-1.973	300.918
2017/18	300.918	0.000	3.487	-8.931	-2.197	293.277
2018/19 - 22/23	293.277	47.362	52.618	-35.704	-17.946	339.607
2023/24 - 27/28	339.607	8.375	12.365	-29.369	-31.570	299.408
2028/29 - 32/33	299.408	0.000	6.666	-23.335	-33.375	249.365
2033/34 - 37/38	249.365	0.000	0.359	-28.248	-31.188	190.288
2038/39 - 42/43	190.288	0.000	0.000	-30.570	-24.187	135.530
2043/44 - 47/48	135.530	0.000	0.000	-30.233	-18.891	86.406
2048/49 - 52/53	86.406	0.000	0.000	-27.963	-15.948	42.495
2053/54 - 57/58	42.495	0.000	0.000	-21.347	-13.592	7.555
2058/59 - 62/63	7.555	0.000	0.000	-3.519	-3.717	0.320
2063/64 & later	0.320	0.000	0.000	-0.320	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 2017/18 this shows no change in General Services and a marginal increase in HRA from 2016/17.

TABLE 8

Estimate of ratio of financing costs to net revenue stream	2016/17 Actual	2017/18 Estimate	2017/18 Actual
General Services	5.0%	5.0%	5.0%
HRA	15.0%	15.5%	15.2%

Incremental impact of capital investment decisions on council tax

This indicator identifies the impact on Council Tax charges of changes to capital investment and borrowing plans since budgets were approved. The indicator appears as a reduction where the amount of capital investment and borrowing is less than the approved budget. In 2017/18 there was no change to Council Tax, this indicator is purely illustrative and demonstrates what the impact could have been.

Incremental impact of capital investment decisions on housing rents

This indicator identifies the impact, on weekly housing rents, of changes to capital investment and borrowing plans since budgets were approved. The indicator appears as a reduction where the amount of capital investment and borrowing has fallen compared to the approved budgets. The values are purely indicative and do not reflect actual changes in the housing rents which are set in accordance with the 30-year Business Plan.

TABLE 9

	2016/17 Actual	2017/18 Actual
Impact on Council Tax (Band D) per annum **(Indicator 11)**	-£30.24	-£10.11
Impact on average housing rent per week **(Indicator 12)**	-£3.18	£6.41

The Affordability Indicators included in Table 9 are notional and 2017/18 represents the final year of publication.

4. Investment Rates and Outturn 2017/18

Interest Rates

In November 2017 the Bank of England base rate changed from 0.25% to 0.5%. Initial market expectation was that rates would remain at 0.25% during 2017/18. Current indicators anticipate low but rising interest rates during 2018-19. Deposit rates have remained depressed during 2017/18 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 1 March 2017. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data (such as rating outlooks, 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 10

Cash Balances	2016/17 Actual	2017/18 Actual
	£m	£m
1 April	9.850	15.450
31 March	15.450	26.000
Change in year	**5.600**	**10.550**

Investments held by the Council

The Council maintained an average balance of £17.479m 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 and Money Market Funds, earned a weighted average rate of return of 0.37%. This compares to a rate of 0.31% in 2016/17. Performance was below the target rate of 0.4% and reflects a reduction in interest rates now being offered by the market for short term investments.

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 unitary authorities in their client group and provide regular investment benchmarking information to the Council. In terms of performance in 2017/18, North Ayrshire Council's average weighted rate of return on investments of 0.37% compared to the group average rate of 0.46%. This reflects the short term nature of our investments and the market rates on offer for this term.

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