NORTH AYRSHIRE COUNCIL

7 November 2023

Cabinet

Title:	**Treasury Management and Investment Mid-Year Report 2023/24**
Purpose:	To provide Cabinet with a Treasury Management update for the period 1 April to 30 September 2023.
Recommendation:	That Cabinet agrees to (a) endorse the contents of the Treasury Management and Investment Mid-Year Report for 2023/24 (Appendix 1); (b) note the Prudential and Treasury Indicators contained therein; and (c) note the changes arising from the review of HRA Loans Fund Advances.

1. Executive Summary

1.1 The Treasury Management and Investment Strategy and treasury management indicators provide a framework for the Council's treasury activities to ensure the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks.

1.2 This mid-year review report:

- provides an update on performance to 30 September 2023;
- updates the annual prudential indicators to reflect the latest information available to the Council;
- demonstrates that the treasury management activities carried out during the period 1 April to 30 September 2023 have been consistent with the Treasury Management and Investment Strategy 2023/24 and have complied with the treasury management indicators set out in the Strategy; and
- details the review of Loan Fund Advances and the resulting changes.

2. Background

2.1 The Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2021 Edition (the CIPFA Code) requires that Elected Members are provided with regular monitoring reports on treasury management activities. The Treasury Management Strategy for 2023/24 was approved by Council on 1 March 2023.

This report is the Mid-Year Report, providing Cabinet with an update on treasury management activities for the period 1 April to 30 September 2023.

An annual report on the treasury management activities for the year will be presented to Council following the end of the financial year.

These reports ensure that the Council is meeting best practice in accordance with CIPFA's Code of Practice.

2.2 The 2023/24 Mid-Year Report is attached at Appendix 1 and covers:

- Prudential and treasury indicators;
- Borrowing and associated rates; and
- Investments and associated rate of return.

2.3 This report provides an update on performance to 30 September 2023 and the annual prudential indicators to reflect the latest information. 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, during the period 1 April to 30 September 2023, the Council has operated within the authorised and operational limits and prudential indicators as set out in the Council's 2023/24 Annual Treasury Management Strategy Statement (TMSS).

2.4 The Executive Summary of the Mid-Year Report provides a high level overview of treasury management and performance, with more detail provided in the body of the report. Key points to note are:

- the re-profiling of capital expenditure into future years and continued use of internal resources have had an impact on all of the prudential indicators;
- PWLB interest rates rose by around 1% during the period in both the long and short term.
- during the year to date the Council has undertaken no new borrowing . The Council has utilised internal short-term cash reserves to temporarily fund any capital borrowing requirement to 30 September 2023; and
- investment returns are marginally above the target and this is reflective of the rising Bank of England base rate which increased from 4.25% to 5.25% during the period to 30 September.

2.5 Section 14 of the Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016 allows Councils to vary the period and/or amount of the repayments if they consider it prudent to do so. A review of the advance periods for the Housing Revenue Account has been carried out, releasing £6.124m over the life of the 30 year business plan.

3. Proposals

3.1 It is proposed that Cabinet (a) endorse the contents of the Treasury Management and Investment Mid-Year Report for 2022/23 (Appendix 1); (b) note the Prudential and Treasury Indicators contained therein; and (c) note the changes arising from the review of HRA Loans Fund Advances.

4. Implications/Socio-economic Duty

Financial

4.1 **General Services**

Capital Financing Costs - the Council budgeted £17.241m for financing costs and expenses on debt for 2023/24. It is currently estimated that actual costs will total £11.390m. This underspend will be transferred to the Loans Fund Reserve in line with the previously agreed policy to support delivery of the capital investment programme.

Housing Revenue Account

Capital Financing Costs - the Council budgeted £18.158m for financing costs and expenses for debt in 2023/24. It is currently estimated that actual costs will total £10.926m.

In both cases, the main reasons for the underspends are a) the re-profiling of capital expenditure into future years and b) the current strategy to utilise cash balances, resulting in savings on external interest costs.

Human Resources

4.2 None.

Legal

4.3 None.

Equality/Socio-economic

4.4 None.

Environmental and Sustainability

4.5 None.

Key Priorities

4.6 This report directly supports the Council Plan 2023 to 2028 by maximising financial flexibility to support the delivery of our priorities.

Community Wealth Building

4.7 None.

5. Consultation

5.1 The Council's treasury advisors, Arlingclose Ltd, were consulted in the preparation of this report.

Mark Boyd
Head of Service (Finance)

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

Background Papers
Treasury Management and Investment Strategy 2023/24 – Council 1 March 2023

North Ayrshire Council
Comhairle Siorrachd Àir a Tuath

Treasury Management and Investment Mid-Year Report

2023/24

Contents

1.	Purpose	3
2.	Executive summary	4
3.	Prudential and treasury indicators	6
	a. The Council's Capital expenditure and financing 2023/24	6
	b. The Council's overall borrowing need	7
	c. Limits to borrowing activity	8
	d. Treasury position at 30 September 2023	9
	e. Affordability PIs	13
4.	Investment rates in 2023/24	13
5.	Investment position for 2023/24	14
6.	Review of Loans Fund Advances	15

Treasury Management and Investment Mid-Year Review 2023/24

1. Purpose

The Council is required by regulations issued under the Local Government in Scotland Act 2003 and the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2021) to produce a mid-year review of treasury management activities. The purpose of this mid-year 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. This is done through the publication of updated prudential and treasury indicators for 2023/24.

This report meets the requirements of both 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 2023/24, to meet the minimum reporting requirement, the following reports should be submitted to Elected Members:

- an annual treasury management and investment strategy (submitted to the Council on 1 March 2023)
- the capital strategy (submitted to the Council on 1 March 2023)
- a mid-year treasury update report (this report)
- an annual review following the end of the year describing the activity compared to the strategy (will be submitted to Council in June 2024)

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 treasury activities for the six months to 30 September 2023 and highlights performance against the Council's policies previously approved by members.

2. Executive Summary

During the six month period to 30 September 2023, the Council complied with its legislative and regulatory requirements.

The **key prudential and treasury indicators** for 2023/24 have been updated based on the latest available information and will be used to assess performance at the end of the year.

TABLE 1

Prudential and treasury indicators	2023/24 Original Estimate £m	2023/24 Revised Estimate £m
Capital expenditure **(Indicator 1)**		
· Non-HRA	115.931	105.637
· HRA	172.316	36.253
· **Total**	**288.247**	**141.890**
Capital Financing Requirement (CFR):		
· Non-HRA	267.879	271.785
· HRA	284.275	176.011
· **Total**	**552.154**	**447.796**
Gross borrowing **(Indicator 4)**	490.154	323.486
Operational Boundary **(Indicator 5)**	571.667	442.106
Authorised Limit **(Indicator 6)**	628.834	486.317
Investments **(Indicator 8)**		
· Longer than 1 year	-	-
· Under 1 year	20.000	36.900
· **Total**	**20.000**	**36.900**

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

Capital Expenditure for both the General Fund and HRA vary from original estimates due to changes in the profile of projects. Full details of all movements in the capital expenditure budgets are included in the capital programme performance reports submitted to Cabinet throughout the year.

The **Capital Financing Requirement (CFR)** is the underlying borrowing requirements of the Council. The reduction to the requirement during 2023/24 reflects the change in profile of the capital programme.

Gross Borrowing reflects the actual borrowing which has been undertaken. This is projected to be lower than anticipated due to the revised profile of capital projects and the continued 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. The in-year variance is linked to the continued use of internal funds and the re-profiling of the capital programme.

The **Authorised Limit** is set at 10% above the Operational Boundary to give some flexibility to raise funds for future year capital investment.

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 the period 1 April to 30 September 2023 the Council undertook no new borrowing.

There was a substantial rise in the cost of both short- and long-term borrowing over the last 18 months. The Bank Rate rose by 1% from 4.25% at the beginning of April to 5.25% at the end of September. As a result, the Bank Rate was 2% higher than at the end of September 2022.

Affordability of borrowing is measured by a number of indicators, including the impact of:

- Percentage of financial costs relative to the net revenue stream of the General fund and Housing Revenue Account.

As at 30 September 2023 the above indicator shows estimated ratios of 2.6% and 20.2% for General Fund and HRA respectively. 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 latest Scottish Local Authority average was 5.5%, therefore demonstrating a prudent borrowing policy. For the HRA, the latest 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.

The **average investment** rate to 30 September 2023 was 4.47%, compared to a target of 4.25% and actual in 2022/23 of 0.73%. The return secured this year to date reflects the Bank of England base rate which has risen from 4.25% at the beginning of the financial year to 5.25% at 30 September. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

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 the statutory borrowing limit (the authorised limit) has not been breached.

3. Prudential and Treasury Indicators for 2023/24

The Prudential Code establishes a framework to ensure Councils demonstrate effective control over levels of, and decisions relating to, capital investment activity including borrowing. The 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 and set out the Council's overall capital framework.

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

- Capital activity during the year (section a);
- Impact of this activity on the Council's underlying debt (the Capital Financing Requirement) (section b);
- The actual prudential and treasury indicators (section a – e);
- Overall treasury position identifying how the Council has borrowed in relation to this debt, and the impact on investment balances (section e);
- Detailed debt activity (section e); and
- Summary of interest rate movements in the year (section 4);
- Detailed investment activity (section 5).

(a) The Council's Capital Expenditure and Financing 2023/24 (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 resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply other resources, the capital expenditure will give rise to borrowing, which is approved as part of the Council's investment plans.

The tables below show the planned capital expenditure for 2023/24 and the latest forecast, alongside the amount estimated to be financed in year and the amount which will give rise to borrowing.

TABLE 2

General Fund	2023/24 Original Estimate £m	2023/24 Revised Estimate £m
Capital expenditure (Indicator 1)	**115.931**	**105.637**
Financed in year from external funding and reserves	47.639	52.200
Unfinanced capital expenditure	**68.292**	**53.437**
HRA	2023/24 Original Estimate £m	2023/24 Revised Estimate £m
Capital expenditure (Indicator 1)	**172.316**	**36.253**
Financed in year from external funding and reserves	56.640	18.447
Unfinanced capital expenditure	**115.676**	**17.806**

(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 simply 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), by utilising temporary cash resources within the Council or through temporary borrowing from other local authorities.

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 Loan 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 unapplied capital receipts); or
- increasing the annual revenue charge

The Council's CFR for the year is shown in the following table and is a key prudential indicator. The opening balance excludes the PPP / NPD schemes because no borrowing is actually required against these schemes, as a borrowing facility is included in the contract.

Table 3 shows that, based on historic capital expenditure and this year's capital expenditure, the Council has a cumulative underlying borrowing need of £447.796m forecast at 31 March 2024. This is lower than the original estimate largely as a result of changes in the profile of capital projects.

TABLE 3

CFR	2023/24 Original Estimate £m	2023/24 Revised Estimate £m
Opening Balance	**378.655**	**384.064**
Add unfinanced capital expenditure (General Fund and HRA per Table 2)	183.968	71.243
Less Loans Fund Principal Repayments	(10.469)	(7.511)
Closing balance (Indicator 2)	**552.154**	**447.796**
Annual Change (Indicator 3)	**173.499**	**63.732**

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

Borrowing activity is constrained by the prudential indicators for CFR, gross borrowing and by the authorised limit to ensure 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 2025/26). This provides some flexibility to borrow in advance where this is appropriate.

Table 4 highlights the Council's forecast gross borrowing position against the CFR and confirms that at 30 September 2023 the Council has complied with this prudential indicator as gross borrowing is currently within its CFR. The Council is currently under-borrowed by £201.359m due to the continuing strategy to delay long-term external borrowing by utilising internal cash balances.

TABLE 4

	2023/24 Original Estimate £m	2023/24 Revised Estimate £m	30 September 2023 Actual £m
Gross borrowing position **(Indicator 4)**	490.154	323.486	246.437
CFR	552.154	447.796	447.796
(Under)/Over Borrowed Position	**(62.000)**	**(124.310)**	**(201.359)**

As part of its annual Treasury Management and Investment Strategy the Council sets limits for external borrowing which it is not normally expected to exceed. These limits are explained below.

The Operational Boundary

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

The authorised limit represents a limit beyond which external debt is prohibited. Performance against the approved strategy is monitored throughout the year and reported to Cabinet as appropriate. However, ultimate responsibility for setting or adjusting this limit lies with full Council. The current limit is set at 10% of the Operational Boundary.

Table 5 demonstrates that between 1 April and 30 September 2023 the Council's gross borrowing was within both the operational boundary and its authorised limit, by a significant margin due to the continuing strategy to delay new external borrowing by utilising internal cash balances and changes in the capital programme that have resulted in a reduced borrowing requirement.

TABLE 5

	Estimated £m	Revised £m
Average gross borrowing position 1 April to 30 September 2022		250.979
Maximum gross borrowing position 1 April to 30 September 2022		252.793
Operational boundary per Treasury Strategy 2022/23 (Indicator 5)	571.667	442.106
Authorised limit per Treasury Strategy 2022/23 (Indicator 6)	628.834	486.317

(d) Treasury Position at 30 September 2023 (Prudential Indicators 7 - 11)

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 through both Member reporting and the Council's Treasury Management Practices.

Borrowing Strategy for 2023/24

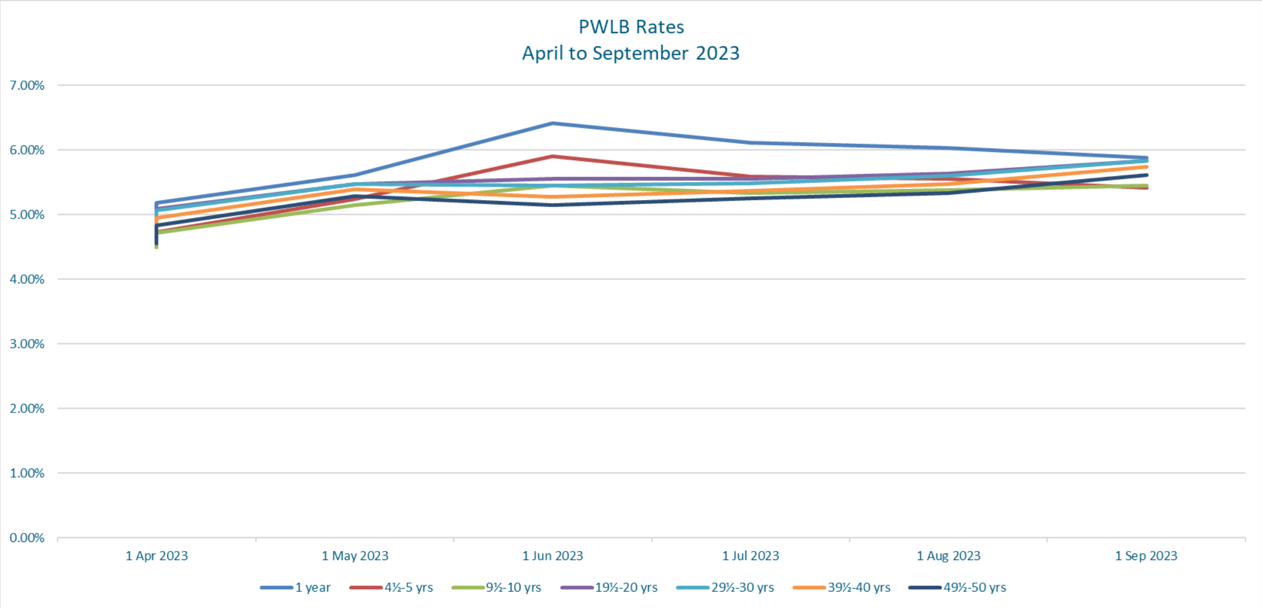
The Borrowing Strategy for 2023/24 anticipated bank interest rates remaining at 4.25% during 2023 before beginning to decline in 2024. Fixed borrowing rates were anticipated to remain steady. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period. Continued economic uncertainty has promoted a cautious approach, whereby investments continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

During the period April to September, UK gilt yields were volatile, mainly facing upward pressure since early April following signs that UK growth had been more resilient, inflation stickier than expected, and that the Bank of England saw persistently higher rates through 2023/24 as key to dampening domestic demand. Gilt yields, and consequently borrowing rates, rose and broadly remained at elevated levels. On 30th September, the PWLB certainty rates for maturity loans were 5.26% for 10 year loans, 5.64% for 20-year loans and 5.43% for 50-year loans. Their equivalents on 31st March 2023 were 4.33%, 4.70% and 4.41% respectively.

A new PWLB HRA rate which is 0.4% below the certainty rate was made available from 15th June 2023. Initially available for a period of one year, this discounted rate is to support local authorities borrowing for the Housing Revenue Account and for refinancing existing HRA loans.

As a result of the higher borrowing rates, the Council's current strategy is to use internal funds instead of borrowing.

The following graph demonstrates that PWLB rates have remained relatively steady during the period April to September 2023.



CIPFA's 2021 Prudential Code is clear that local authorities must not borrow to invest primarily for financial return and that it is not prudent for local authorities to make any investment or spending decision that will increase the capital financing requirement, and so may lead to new borrowing, unless directly and primarily related to the functions of the Council.

Local authorities can borrow from the PWLB provided they can confirm they are not planning to purchase 'investment assets primarily for yield' in the current or next two financial years, with confirmation of the purpose of capital expenditure from the Section 95 Officer. Authorities that are purchasing or intending to purchase investment assets primarily for yield will not be able to access the PWLB except to refinance existing loans or externalise internal borrowing.

The Council is not planning to purchase any investment assets primarily for yield within the next three years and so is able fully access the PWLB.

Borrowing Position for 2023/24

To date in 2023/24, the Council has undertaken no new borrowing. The Council has used internal short-term cash reserves to temporarily fund its capital borrowing requirement to 30 September 2023.

In terms of outlook for the remainder of the year, based on current capital plans and replacement borrowing requirements, it is estimated that the Council will borrow £75.294m this financial year, with a forecasted planned under borrowed position of £100.000m at the end of March 2024.

Rescheduling

No rescheduling has taken place between 1 April 2023 and 30 September 2023. The continuing rise in gilt yields since early 2022 may result in some of the Council's PWLB loans being in or close to a discount position if repaid early. The Council continues to monitor the position. The Council has £25.950m of LOBO loans with call dates within the next 12 month. The Council has liaised with its treasury management advisors, Arlingclose, over the likelihood of the options being exercised. If the option is exercised and an increased rate proposed, the Council currently plans to repay the loan at no additional cost as accepting the revised terms would mean the Council would still have refinancing risk in later years. If applicable, the Council will repay the LOBO loans with available cash or by borrowing from other local authorities or the PWLB.

The Council's treasury position (excluding borrowing by PPP/NPD and finance leases) at the 31 March 2023 and 30 September 2023 was as follows:

TABLE 6

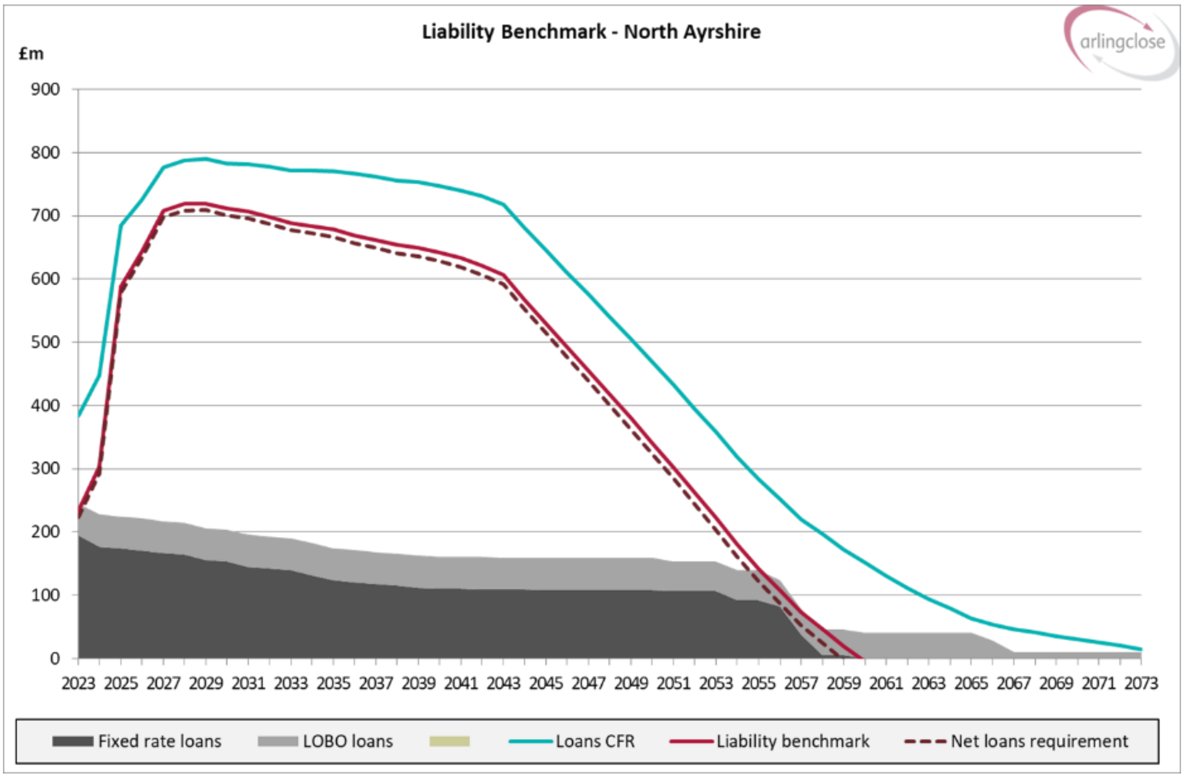
	31 March 2023 Principal £m	Rate/ Return %	30 September Principal £m	Rate/ Return %
Fixed rate funding:				
-PWLB	178.167	4.72%	177.917	4.76%
-Other Local Authorities	15.000	1.62%	16.152	2.71%
-Market	1.449	8.83%	1.418	9.03%
Variable rate funding:				
-Market	50.950	5.10%	50.950	5.10%
Total debt (Indicator 7)	245.566	4.63%	246.437	4.72%
CFR	384.064		447.796	
Over / (under) borrowing	(138.498)		(201.359)	
Investments:				
- internally managed	31.456	0.73%	36.900	4.47%
Total investments (Indicator 8)	31.456		36.900	

All investments at 30 September 2023 mature within one year in line with the Treasury Management and Investment Strategy **(Indicator 9)**.

The **Liability Benchmark** is a new indicator which compares the Council's actual existing borrowing against a liability benchmark that has been calculated to show the lowest risk level of borrowing. The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. It represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level of £10m required to manage day-to-day cash flow.

Liability Benchmark	2022/23 Actual £m	2023/24 Estimate £m	2024/25 Forecast £m	2025/26 Forecast £m
Loans CFR	384.1	447.8	685.4	725.6
Less Balance sheet resources	(160.9)	(155.3)	(107.4)	(92.6)
Net loans requirement	223.2	292.5	578.0	633.0
Liquidity allowance	10.0	10.0	10.0	10.0
Liability Benchmark	233.2	302.5	588.0	643.0
Existing Borrowing	(252.2)	(234.2)	(231.2)	(228.3)

Following on from the medium-term forecasts in the table above, the long-term liability benchmark assumes capital expenditure funded by borrowing will be in line with the 10 year capital plan and 30 year HRA business plan respectively, loans fund advances on new capital expenditure based on asset life and income, expenditure and reserves all increasing by inflation of 2.5% a year with any specific adjustments made for planned use of reserves. This is shown in the following chart together with the maturity profile of the Council's existing borrowing:



The maturity structure of the debt portfolio **(Indicator 10)** at 30 September 2023 is shown below 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 7

Maturity Profile of Borrowing (Indicator 10)	31-Mar-23 Actual £m	30 September 2023 Actual £m
Under 12 months	43.481	45.100
12 months and within 24 months	2.950	2.950
24 months and within 5 years	6.207	9.907
5 years and within 10 years	21.639	29.439
10 years and within 20 years	33.177	35.227
20 years and within 30 years	6.225	6.225
30 years and within 40 years	106.887	92.589
40 years and within 50 years	15.000	15.000
50 years and above	10.000	10.000
Total Borrowing	**245.566**	**246.437**

The next 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 11).** The Council approved a limit on variable borrowing of £60.000m in the Treasury Management Strategy 2023/24.

TABLE 8

	2023/24 Original Limits £m	30 September 2023 Actual £m
Limits on fixed interest rates based on net debt **(Indicator 11)**	628.834	486.317
Limits on variable interest rates based on net debt **(Indicator 11)**	60.000	50.950

(e) Affordability Prudential Indicators (Prudential Indicator 12 - 14)

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. The cost impact of borrowing decisions are reflected in the Council's budget as loan charges.

The actual and estimates of the ratio of financing costs to net revenue stream indicator identifies the trend in the cost of capital (borrowing and other long-term liabilities net of investment income) against the net revenue stream.

TABLE 9

Estimate of ratio of financing costs to net revenue stream (Indicator 14)	2023/24 Original Estimate £m	2023/24 Revised Estimate £m
General Services	3.4%	2.6%
HRA	27.8%	20.2%

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 latest Scottish Local Authority average was 5.5%, thereby demonstrating a prudent borrowing policy.

For the HRA, the latest 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.

4. Investment Rates in 2023/24

The Bank Rate has risen from 4.25% to 5.25% during the period April to September. The Council's treasury advisers, Arlingclose, currently project that the bank rate has now reached its peak at 5.25% and is forecasting gradual reductions from September 2024.

5. Investment Position for 2023/24

Investment Policy

The Council's investment policy is governed by Scottish Government investment regulations, which have been implemented in the annual treasury management and investment strategy, approved by Council on 1 March 2023. This policy sets out the approach for choosing investment counterparties, based on credit ratings provided by the three main credit rating agencies and supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.).

All investments during 2023/24 have complied with our investment policy.

Resources

The Council's cash balances comprise revenue and capital resources and cash flow monies. The Council's cash resources at 30 September 2023 were as follows:

TABLE 10

Cash Balances	2023/24 Actual £m
1 April 2023	31.456
30 September 2023	36.900
Change within 6 months	**5.444**

Investments held by the Council

The Council has maintained an average balance of £38.692m of invested funds and utilised cash balances during the year in support of the under-borrowed position.

The Council's treasury management advisors, Arlingclose Limited, have five Scottish unitary authorities in their client group and provide regular investment benchmarking information to the Council. North Ayrshire Council's average weighted rate of return on investments during the period 1 April 2023 to 30 September 2023 was 4.47% (0.80% for the period to 30 September 2022). The actual rate of return on investments as at 30 September for North Ayrshire Council was 5.09%. Benchmarking information, comparing the Council's performance with the other Scottish Unitary authorities within the client group of Arlingclose, as at 30 September has not currently been published and will be presented as part of the annual review report to Council in June 2024.

The Council's investment portfolio at 30 September included a £5m loan to Woking Borough Council until 23 October 2023. 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. The Council can confirm the full amount of the loan, including interest was recovered on the maturity date of 23 October 2023.

The target investment rate for 2023/24 was 4.25% and the slightly higher weighted average return in the first half of the year reflects the rising Bank of England Base Rate.

We will continue to invest with approved counterparties in accordance with the approved strategy.

6. Review of Loans Fund Advances

Under the Schedule 3 of the Local Authority (Scotland) Act 1975, the Council operates a Loans Fund with the purpose of undertaking borrowing in order to make advances to support capital expenditure and determining the annual repayment to be charged to the General Services and HRA revenue accounts.

At 31 March 2023, North Ayrshire Council's Loans Fund included outstanding advances of £384.064m, due to be repaid over the next 50 years, and projections for a further £478.126m of advances in support of the approved General Services and HRA capital programmes.

Section 14 of the Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016 allows Councils to vary the period and/or amount of the repayments, if they consider it prudent to do so.

Resulting Action

The Council's current policy is that all current and future loans fund advances should be calculated using the Asset Life method, which aligns the repayment of advances to the Useful Economic Life (UEL) of the assets to be acquired, and should be calculated using an annuity rate linked to the average interest rate of borrowing undertaken by the Loans Fund

It has been determined that there are sufficiently detailed records on which to base a recalculation of HRA advances made since 2011/12, with all advances made after this date being examined to determine the most appropriate UEL and then recalculated using the revised methodology detailed above.

Impact of the Resulting Actions

Although there is no change in the overall level of Loans Fund advances to be repaid, this will result in the reprofiling of the principal and interest payments based on the review of the UEL of the assets with a resulting increase in the interest calculations over the next 54 years of £22.844m for the HRA and £17.461m for the General Fund.

The recalculation of payments within the HRA will result in reduced annual repayments over the period to 2040/41 which will be offset by increased payments in later years.

It should be noted that these projections are based on the current Capital Programmes as approved by Council and estimates within the 30 year HRA Business plan. Any changes to the approved Programmes will impact on the movement.

Impact on the HRA Business Plan

The anticipated reduction in HRA Loan Charge Repayments will release £6.124m over the 30 year life of the business plan and will support the investment within this period whilst aiming to keep rents affordable.