NORTH AYRSHIRE COUNCIL

26 June 2024

North Ayrshire Council

Title:	**Treasury Management and Investment Annual Report 2023/24**
Purpose:	To report to Council on the Treasury Management and Investment Annual Report and Prudential Indicators for 2023/24.
Recommendation:	That Council notes : (a) the Treasury Management and Investment Annual Report for 2023/24 (Appendix 1); and (b) the Prudential and Treasury Indicators contained therein.

1. Executive Summary

1.1 The Council is required by regulations issued under the Local Government in Scotland Act 2003 to produce an annual review of treasury management activities. The purpose of the annual review is to report the performance of the Council's treasury operations and how this measures up against the Council's Treasury Management and Investment Strategy 2023/24. This is done through the publication of the annual report which contains the actual prudential and treasury indicators for 2023/24.

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 2023/24 for North Ayrshire Council is attached at Appendix 1. Key points to note from the report are as follows:

- During 2023/24, the Council complied with its legislative and regulatory requirements in relation to treasury activities;
- Capital expenditure was below the level anticipated at the start of the year due to changes in the profile of projects;
- Gross borrowing was lower than anticipated due to the revised profile of capital projects and the use of internal funds, the latter being a key element of the Treasury Management Strategy to minimise costs;
- During the year the Council undertook long term borrowing of £70m to support the agreed Capital Investment Programme and to reduce the Council's exposure to interest rate risk: and
- The average loans fund pool rate increased from 3.14% to 3.19%.

- On December 22nd the Council's investments with 2 Money Market funds (MMF's) exceeded the recommended 10% limit. This was due to earlier cut off times for the festive period, resulting in the Council being unable to recall funds.
- In March 2024 a £2m Lender's Option Borrower's Option (LOBO) loan was called and repaid, reducing the Councils level of variable rate debt. A further £5m LOBO has been repaid after the end of the financial year.

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 2023/24 Annual Treasury Management and Investment Strategy was approved by Council on 1 March 2023, the mid-year report was submitted to the Cabinet on 7 November 2023 and treasury prudential indicators were reported quarterly. This final outturn report ensures full compliance with the CIPFA Code of Practice.

2.2 **Current Position**

The 2023/24 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 2023/24 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 2023/24 Annual Treasury Management and Investment Strategy Statement (TMSS).

2.4 **Borrowing Update**

At 31 March 2024 the council has £48.950m variable rate debt which relates to Lender's Option Borrower's Option (LOBO) loans where the lender has the option to propose an increase in the interest rate at set dates. This is a £2.000m reduction from the prior year due to one of the LOBO loans being called and repaid in March 2024. The Council continues to work with treasury management advisers to identify financially beneficial opportunities to repay LOBO loans and a further £5m loan has been called in during May 2024, the Council again opted to repay the loan.

2.5 **Investment Update**

The Treasury strategy, approved by Council on 1 March 2023, recommended that no more than 10% of the Council's total investments are invested in any one Money Market Fund (MMF). On 22 December 2023, the Council was unable to recall funds from 2 MMF's due to earlier holiday cut-off times. As a result, the balances invested in those 2 funds exceeded our recommended limits. This was rectified on the next working day, 27th December 2023, with no negative impacts.

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

2.6.1 **Capital Financing Costs** - the General Fund budget of £17.381m for financing costs and expenses on debt for 2023/24 was underspent by £5.189m, comparative information for the HRA was a budget of £18.176m and an underspend of £7.587m. The underspends are a result of a planned contribution to support the 10 year General Fund capital programme; the re-profiling of planned capital expenditure and the continuing strategy to delay new external borrowing by utilising cash balances, resulting in savings on external interest costs.

2.6.2 **Interest on Revenue Balances** - the General Fund budget of £0.140m for interest on its revenue balances with a reported over-recovery of £0.212m in 2023/24, comparative information for the HRA was a budget of £0.017m with a reported over-recovery of £0.578m. The overall over-recovery is reflective of the higher bank rate during 2023/24.

2.6.3 **Service Concession Reprofiling** - there was an in year underspend of £2.688m following the adoption of the revised accounting arrangements under Local Government Finance Circular 10/2022 for the recalculation of debt repayments arising from the Council's service concession contracts as approved by Council on 15 February 2023.

2.6.4 In accordance with agreed policy, the net General Fund underspend of £8.089m has been transferred to the Loans Fund Reserve to support the funding strategy for the ten year capital investment programme.

3. Proposals

3.1 It is proposed that Council notes :

(a) the contents of the Treasury Management and Investment Annual Report for 2023/24 (Appendix 1); and

(b) the Prudential and Treasury Indicators contained therein.

4. Implications/Socio-economic Duty

Financial

4.1 Capital Financing underspends within General Fund of £8.089m have been transferred to the Loans Fund Reserve in line with agreed policy.

Within the HRA, the underspend of £8.165m has been partially utilised to offset in year budgetary pressures with the balance being transferred to HRA reserves.

Human Resources

4.2 None.

Legal

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

Equality/Socio-economic

4.4 None.

Climate Change and Carbon

4.5 None.

Key Priorities

4.6 The Treasury Management and Investment Annual Report 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)

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Background Papers
Capital Programme and Treasury Management Performance to 30 November 2023 – Cabinet 23 January 2024;
Treasury Management and Investment Mid-year Report 2023/24 – Cabinet 7 November 2023

North Ayrshire Council
Comhairle Siorrachd Àir a Tuath

Annual Treasury Management and Investment Report

2023/24

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Annual Treasury Management and Investment Report 2023/24

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 2023/24. This is done through the publication of the annual report and actual prudential and treasury indicators for 2023/24.

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 2023/24 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 2023)
- quarterly reporting of treasury prudential indicators
- a mid-year treasury update report (submitted to the Cabinet on 7 November 2023)
- 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.

However, the Treasury strategy, approved by Council on 1 March 2023, recommended that no more than 10% of the Councils total investments are invested in any one Money Market Fund (MMF). On 22 December 2023, earlier than anticipated holiday cut-off times within the Fund management companies resulted in the Council being unable to recall funds from 2 MMF's. As a result, the amounts invested in those 2 funds equated to 15% of the Council's total Investments. This was rectified on the next working day, 27th December 2023, with no negative impacts.

2. Executive Summary

During 2023/24, 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	**2022/23 Actual £m**	**2023/24 Estimate £m**	**2023/24 Actual £m**
Capital expenditure			
General services	36.194	112.312	85.435
HRA	30.478	39.730	38.966
Total	**66.672**	**152.042**	**124.401**
Capital Financing Requirement (CFR):			
General services	219.809	269.594	252.383
HRA	164.255	180.546	184.503
Total	**384.064**	**450.140**	**436.886**
Gross borrowing	245.566	325.829	316.786
Operational Boundary	397.338	467.574	474.582
Authorised Limit	437.072	514.331	522.041
Total Operational Boundary (Including PPP/NPD)	497.477	555.306	570.899
Total Authorised Limit (Including PPP/NPD)	537.211	602.063	618.358
Liability Benchmark	233.139	304.843	291.409
Investments	31.456	30.000	40.105

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 2023/24 reflects changes in the profile of the capital programme.

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

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

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

As noted above, the Council continues to use its internal funds to delay borrowing to minimise costs but balances this with long term borrowing to support the agreed Capital Investment Programme and to reduce the Council's exposure to interest rate risk. The Council took out long term borrowing of £70m in 2023/24.

The **average loans fund pool rate** is the total interest paid during the year as a percentage of the total loans fund advances. In 2023/24 this increased from 3.14% to 3.19%.

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 £48.950m of the Council's loans are at a variable rate, which is in line with the strategy. This is £2.000m reduction from the prior year due to a LOBO loan being called and repaid in March 2024. Furthermore, another loan for £5m was called and repaid in May 2024 as the Council continues to work with treasury management advisers to identify financially beneficial opportunities to repay LOBO loans.

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 2023/24 were 3.7% for the General Fund and 18.9% for the Housing Revenue Account. Capital expenditure impacts on the revenue budget through financing charges so it is essential the Council ensures the financing costs remain affordable and do not constitute an excessive proportion of the revenue resources available. From a General Fund perspective, the Scottish Local Authority average in 2022/23 was 5.4%, therefore demonstrating a prudent borrowing policy. For the HRA, the Scottish average in 2022/23 was 21.3%. The level of loan charges is deemed prudent and affordable within the framework of the 30 year Housing business plan.

The **average internal investment** rate was 4.81% compared to a target of 4.25%. The rate secured in 2022/23 was 1.69%. The higher return secured in 2023/24 reflects the increase in the bank rate during 2023/24.

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

Conclusion

The Head of Finance confirms that long-term borrowing is only undertaken for a capital purpose and that the statutory borrowing limit (the authorised limit) has not been breached.

3. Prudential and Treasury Indicators for 2023/24

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 2024 (section d); and
- Affordability Prudential Indicators (section e);

(a) The Council's Capital Expenditure and Financing 2023/24

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 2023/24 compared with the planned investment alongside the amount financed immediately and the amount which gave rise to borrowing.

TABLE 2

General Fund	2022/23 Actual £m	2023/24 Estimate £m	2023/24 Actual £m
Capital expenditure (Indicator 1)	**36.194**	**112.312**	**85.435**
Financed in year	33.702	61.066	51.400
Unfinanced capital expenditure	**2.492**	**51.246**	**34.035**
HRA	**2022/23 Actual £m**	**2023/24 Estimate £m**	**2023/24 Actual £m**
Capital expenditure (Indicator 1)	**30.478**	**39.730**	**38.966**
Financed in year	16.484	18.446	13.724
Unfinanced capital expenditure	**13.994**	**21.284**	**25.242**

(b) The Council’s Overall Borrowing Need (the Capital Financing Requirement)

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 £436.886m at 31 March 2024.

TABLE 3

CFR	2022/23 Actual £m	2023/24 Estimate £m	2023/24 Actual £m
Opening balance	352.988	384.064	384.064
Add PPP/NPD liability	100.139	87.732	96.317
Revised Opening Balance	**453.127**	**471.796**	**480.381**
Add unfinanced capital expenditure (General Fund)	2.492	51.246	34.035
Add unfinanced capital expenditure (HRA)	13.994	21.284	25.242
Less Loans Fund Principal Repayments	14.590	(6.455)	(6.455)
Sub-total	**484.203**	**537.871**	**533.203**
Less PPP/NPD lease repayments	(100.139)	(87.732)	(96.317)
Closing balance (Indicator 2)	**384.064**	**450.139**	**436.886**
Annual Change (Indicator 3)	**31.076**	**66.075**	**52.822**

(c) Limits to Borrowing Activity

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 2025/26). 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 £120.101m due to the continuing strategy to delay new external borrowing by utilising internal cash balances.

TABLE 4

	2022/23 Actual £m	2023/24 Estimate £m	2023/24 Actual £m
Gross borrowing position **(Indicator 4)***	245.566	325.829	316.786
CFR	384.064	450.140	436.886
(Under)/Over Borrowed Position	**(138.498)**	**(124.311)**	**(120.101)**

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

The operational boundary is the expected maximum borrowing position of the Council during the year, taking account of the timing of various funding streams and the recharge of principal repayments from the revenue account. Periods where the actual position varies from the boundary are acceptable subject to the authorised limit not being breached.

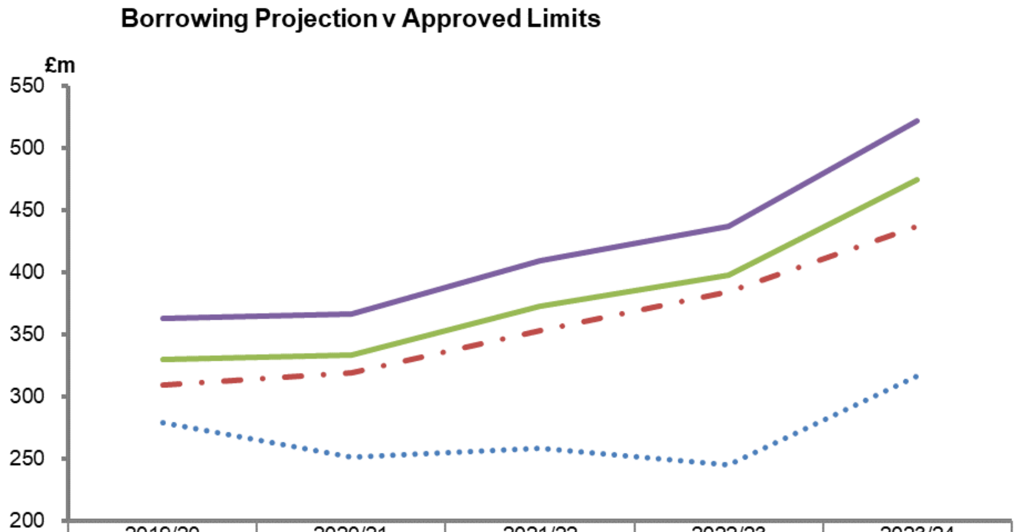
The Authorised Limit

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 2023/24 the Council's gross borrowing was within both the operational boundary and the authorised limit by a significant margin, due largely to the continuing strategy to delay new external borrowing by utilising internal cash balances.

Information on the re-profiling of capital expenditure can be found in the 'Capital Programme Performance to 31 March 2024' report, presented to Cabinet on 4 June 2024.

NB: Figures exclude PPP



	2019/20	2020/21	2021/22	2022/23	2023/24
Gross Debt at 31 March	279.493	251.507	258.527	245.566	316.786
CFR (Borrowing need)	309.450	319.548	352.988	384.064	436.886
Operational Boundary	330.009	333.483	372.562	397.338	474.582
Authorised Limit	363.010	366.832	409.819	437.072	522.041

(d) Treasury Position at 31 March 2024

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 2023/24

The borrowing strategy for 2023/24 anticipated bank interest rates remaining steady during 2023 before beginning to decline in 2024 and fixed borrowing rates to remain steady. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period.

The Council has a strategy of taking a combination of temporary and permanent borrowing in recognition of the Council's longer term borrowing requirements and the market rates available at that time. This balances short term financial savings with longer term security of costs. During 2023/24 the Council undertook £70m of long-term borrowing.

Having begun the financial year at 4.25%, the Bank of England's Monetary Policy Committee (MPC) increased Bank Rate to 5.25% in August 2023 as the UK economy appeared resilient in the face of the dual headwinds of higher inflation and interest rates. Bank Rate was maintained at 5.25% through to March 2024.

The cost of short term borrowing from other local authorities has generally risen with Base Rate over the year. Interest rates peaked at around 7% towards the later part of March 2024 as many authorities required cash at the same time. These rates are expected to fall back to more normal market levels from April 2024.

The PWLB 20 year maturity certainty rate stood at 5.18% at 31st March compared to 4.70% at the start of 23/24. A new PWLB HRA rate which is 0.4% below the certainty rate was made available from 15th June 2023. This rate will now be available to June 2025. The Council has accessed this rate during 2023/24 to support the council house building programme and investment in the housing stock.

Borrowing Outturn for 2023/24

At the beginning and end of 2023/24, the Councils treasury position was as follows:

TABLE 5

	31 March 2023 Principal	Rate/ Return	31 March 2024 Principal	Rate/ Return
	£m	%	£m	%
Fixed rate funding:				
- PWLB	178.167	4.72%	245.280	4.77%
-Local Authorities	15.000	1.62%	21.250	4.27%
-Market	1.449	8.83%	1.306	9.79%
Variable rate funding:				
- Market	50.950	5.10%	48.950	5.10%
Total debt	**245.566**	**4.63%**	**316.786**	**4.81%**
CFR	**384.064**		**436.886**	
Over / (under) borrowing	**(138.498)**		**(120.100)**	
Investments:				
- Internally managed	31.456	0.73%	40.105	4.81%
Total investments	**31.456**		**40.105**	

The Council's gross debt position increased by £71.220m during 2023/24. A summary of the movement is outlined below.

Category of Debt	**Activity**	**£m**
Fixed - PWLB	Repayment	67.113
Fixed - Local Authorities	Repayment	6.250
Fixed - Market	Repayment	(0.143)
Variable - Market	Repayment	(2.000)
Net Decrease in Debt		71.220

The Council's Variable rate debt relates to Lender's Option Borrower's Option (LOBO) loans where the lender has the option to propose an increase in the interest rate at set dates. During the year one of these loans for £2m was called and the Council opted to repay the loan. The Council continues to work with treasury management advisers to identify financially beneficial opportunities to repay LOBO loans and with another £5m loan being called in May 2024 the Council again opted to repay the loan.

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

Rescheduling

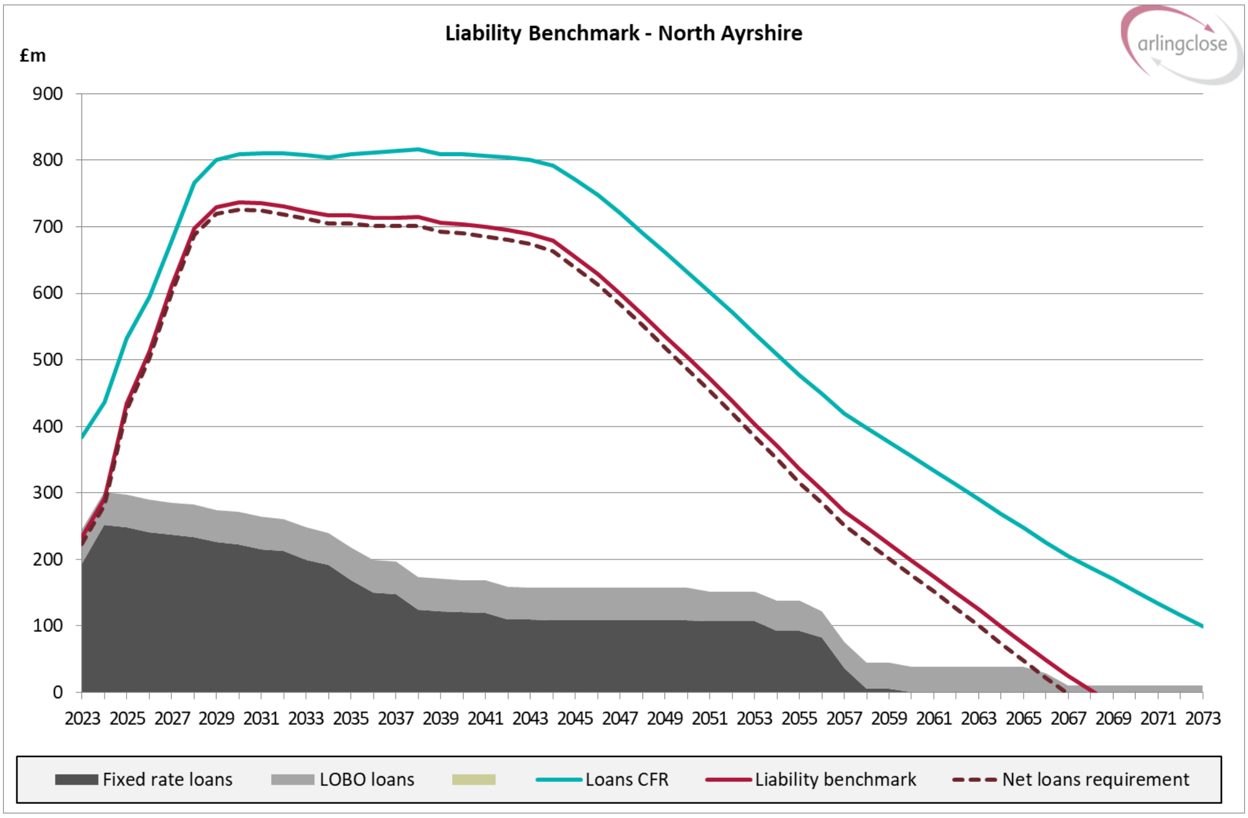
No rescheduling was done during the year as the average differential between PWLB new borrowing rates and premature repayment rates made rescheduling not viable.

Liability Benchmark

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 Actual £m	2024/25 Forecast £m	2025/26 Forecast £m
Loans CFR	384.1	436.9	531.4	594.8
Less Balance sheet resources	(160.9)	(155.3)	(107.4)	(92.6)
Net loans requirement	223.2	281.6	424.0	502.2
Liquidity allowance	10.0	10.0	10.0	10.0
Liability Benchmark	233.2	291.6	434.0	512.2
Existing Borrowing	(252.2)	(307.2)	(304.2)	(296.3)

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 at 31 March 2024 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 2023 Actual £m	31 March 2023 Actual %	31 March 2024 Actual £m	31 March 2024 Actual %
Under 12 months	43.481	18%	62.650	20%
12 months and within 24 months	2.950	1%	2.950	1%
24 months and within 5 years	6.207	3%	13.845	4%
5 years and within 10 years	21.639	9%	31.439	10%
10 years and within 20 years	33.177		83.189	
20 years and within 30 years	6.225		20.125	
30 years and within 40 years	106.887	70%	92.588	65%
40 years and within 50 years	15.000		-	
50 years and above	10.000		10.000	
Total Borrowing	**245.566**	**100%**	**316.786**	**100%**

* Note that for 23/24 LOBOs of £38.950m have been shown as under 12 months to reflect the ability of these to be called in by the investor at any time. This does not change the maturity date but simply reflects the nature of the debt. Higher interest rates have increased the possibility of these loans being called with 2 loans totalling £7m being called between March and May 2024.

The impact of a 1% rise in interest rates based on the Councils current debt portfolio is shown in the table below:

Interest rate Risk Exposure	2024/25 £m	2025/26 £m	2026/27 £m
Impact of1% increase in Interest rates	0.438	0.641	0.684
Impact of1% decrease in Interest rates	(0.167)	(0.252)	(0.294)

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 and was as follows:

TABLE 7

	2022/23 Actual £m	2023/24 Limit £m	2023/24 Actual £m
Limit on fixed rate (principal)	194.616	306.895	267.836
Limit on variable rate (principal)	50.950	60.000	48.950

Estimates of prudent Loans Fund repayment

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

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

Year	Opening Balance £m	Advances to GF £m	Advances to HRA £m	Repayment by GF £m	Repayment by HRA £m	Closing Balance £m
2023/24 Actual	384.064	34.035	25.242	-1.461	-4.994	436.886
2024/25 - 28/29	436.886	207.756	200.724	-11.995	-33.167	800.204
2029/30- 33/34	800.204	8.717	53.153	-17.345	-40.717	804.011
2034/35 - 38/39	804.011	0.000	78.267	-20.953	-51.677	809.649
2039/40 - 43/44	809.649	0.000	97.847	-54.626	-60.491	792.379
2044/45 - 48/49	792.379	0.000	10.337	-75.824	-65.470	661.422
2049/50 - 53/54	661.422	0.000	0.000	-92.292	-61.191	507.938
2054/55 - 58/59	507.938	0.000	0.000	-74.874	-57.287	375.777
2059/60 - 63/64	375.777	0.000	0.000	-45.191	-62.099	268.487
2064/65 - 68/69	268.487	0.000	0.000	-37.405	-61.267	169.814
2069/70 & later	169.814	0.000	0.000	-38.352	-131.462	0.000

(e) Affordability Prudential Indicators

These Prudential Indicators assess the affordability of capital investment plans and provide an indication of the impact of capital investment plans on the Council's overall finances.

Actual financing costs as a proportion of net revenue stream

This indicator identifies the trend in the cost of capital (borrowing and other long-term obligation costs net of investment income) against the net revenue stream and is a measure of affordability for debt repayment. Actuals for 2023/24 were 2.7% for the General Fund and 18.9% for the Housing Revenue Account. The reduction in the ratio within the HRA during 2023/24 is a result of the review of the loans fund advances, as detailed in the mid year report, which realigned advances to the most appropriate useful economic life. Capital expenditure impacts on the revenue budget through financing charges so it is essential the Council ensures the financing costs remain affordable and do not constitute an excessive proportion of the revenue resources available. From a General Fund perspective, the Scottish Local Authority average in 2022/23 was 5.4%, therefore demonstrating a prudent borrowing policy. For the HRA, the Scottish average was 21.3%. The level of loan charges is deemed prudent and affordable within the framework of the 30 year Housing business plan.

TABLE 8

Estimate of ratio of financing costs to net revenue stream	2022/23 Actual	2023/24 Estimate	2023/24 Actual
General Services	1.9%	2.5%	2.7%
HRA	20.1%	20.5%	18.9%

4. Investment Rates and Outturn 2023/24

Interest Rates

The Bank of England increased the official Bank rate from 4.25% at the beginning of the year to 5.25% by the end of March 2024. Deposit rates have increased during 2023/24 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 2023. 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.).

Investment treasury indicator and limit

This is a control on the total principal funds invested for greater than 1 year. This limit is set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and is based on the availability of funds after each year-end.

Maximum principal sums invested for more than 1 year	2023/24 Limit £m	2023/24 Actual £m	2024/25 Limit £m
Principal sums invested for more than 1 year	10.000	-	10.000

All investments at 31 March 2024 mature within one year in line with the approved limit.

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	2022/23 Actual	2023/24 Actual
	£m	£m
1 April	43.506	31.456
31 March	31.456	40.105
Change in year	**(12.050)**	**8.649**

Investments held by the Council

The Council maintained an average balance of £38.955m 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 4.81%. This compares to a rate of 1.69% in 2022/23. Performance was above the target rate of 4.25% and reflects the increase in the bank rate during 2023/24 and the short term nature of our investments and our overall investment objectives of security and liquidity.

The Councils Environmental, social and governance (ESG) policy states that when investing the Council will prioritise banks that are signatories to the UN Principles for Responsible Banking and funds operated by managers that are signatories to the UN Principles for Responsible Investment, the Net Zero Asset Managers Alliance and/or the UK Stewardship Code. A list of ESG Initiative signatories is updated quarterly by the Council's treasury advisor Arlingclose to support the Council's decision making process for investing.

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 five Scottish Local Authorities in their client group and provide regular investment benchmarking information to the Council. In terms of performance in 2023/24, North Ayrshire Council's average weighted rate of return on investments during 23/24 was 4.81% (22/23 1.69%). The actual rate of return on investments as at 31 March for North Ayrshire Council was 5.31% compared to the group average rate of 5.03%.

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