NORTH AYRSHIRE COUNCIL

22 June 2022

North Ayrshire Council

Title:	**Treasury Management and Investment Annual Report 2021/22**
Purpose:	To report to Council on the Treasury Management and Investment Annual Report and Prudential Indicators for 2021/22.
Recommendation:	That Council notes (a) the Treasury Management and Investment Annual Report for 2021/22 (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 2021/22. This is done through the publication of the annual report which contains the actual prudential and treasury indicators for 2021/22.

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 CIPFA published its revised Prudential Code for Capital Finance and Treasury Management Code on 20th December 2021. The key changes in the two codes are around permitted reasons to borrow, knowledge and skills, and the management of non-treasury investments. The principles of the Prudential Code took immediate effect although local authorities could defer introducing the revised reporting requirements until the 2023/24 financial year if they wish. The Council has opted to delay introducing the changes in reporting requirements.

1.4 The Treasury Management and Investment Annual Report 2021/22 for North Ayrshire Council is attached at Appendix 1. Key points to note from the report are as follows:

- During 2021/22, the Council complied with its legislative and regulatory requirements in relation to treasury activities;
- Capital expenditure was below the level anticipated at the start of the year due to changes in the profile of projects;

- Gross borrowing was lower than anticipated due to the revised profile of capital projects and the use of internal funds, the latter being a key element of the Treasury Management Strategy to minimise costs;
- The average loans fund pool rate reduced from 3.84% to 3.38%.

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 2021/22 Annual Treasury Management and Investment Strategy was approved by Council on 4th March 2021 and the mid-year report was submitted to the Cabinet on 30 November 2021. This final outturn report ensures full compliance with the CIPFA Code of Practice.

2.2 Current Position

The 2021/22 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 2021/22 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 2021/22 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 £14.656m for financing costs and expenses on debt for 2021/22 was underspent by £4.150m, comparative information for the HRA was a budget of £10.246m and an underspend of £0.401m. 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 linked to the impact of Covid-19 restrictions; the continuing strategy to delay new external borrowing by utilising cash balances, resulting in savings on external interest costs; and the use of temporary borrowing from other local authorities.

2.4.2 **Interest on Revenue Balances -** the General Fund budget of £0.140m for interest on its revenue balances with a reported under-recovery of £0.105m in 2021/22, comparative information for the HRA was a budget of £0.058m with a reported under recovery of £0.041m. The overall under-recovery 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 2021/22.

2.4.3 In accordance with agreed policy, the net General Fund underspend of £4.045m 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 2021/22 (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 £4.045m have been transferred to the Loans Fund Reserve in line with agreed policy.

Within the HRA, the underspend of £0.360m is part of the overall reported surplus which has been transferred to the HRA balance.

Human Resources

4.2 None.

Legal

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

Equality/Socio-economic

4.4 None.

Climate Change and Carbon

4.5 None.

Key Priorities

4.6 The Treasury Management and Investment Annual Report aligns with the Council Plan by maximising resources and providing value for money to support financially sustainable delivery models.

Community Wealth Building

4.7 None.

5. Consultation

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

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Background Papers
Treasury Management and Investment Mid-year Report 2021/22 – Cabinet 30 November 2021

Appendix 1

North Ayrshire Council
Comhairle Siorrachd Àir a Tuath

Annual Treasury Management and Investment Report

2021/22

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1. Purpose

The Council is required by regulations issued under the Local Government in Scotland Act 2003 to produce an annual review of treasury management activities. The purpose of this annual review is to report the performance of the Council's treasury operation and how this measures up against the Council's Treasury Management and Investment Strategy 2021/22. This is done through the publication of the annual report and actual prudential and treasury indicators for 2021/22.

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).

CIPFA published its revised Prudential Code for Capital Finance and Treasury Management Code on 20th December 2021. The key changes in the two codes are around permitted reasons to borrow, knowledge and skills, and the management of non-treasury investments.

The principles of the Prudential Code took immediate effect although local authorities could defer introducing the revised reporting requirements until the 2023/24 financial year if they wish. The Council has opted to delay introducing the changes in reporting requirements.

The Treasury Management Code has no mention of the date of initial application and the Council is therefore following the same process as the Prudential code and delaying changes in reporting requirements until the 2023/24 financial year.

During 2021/22 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 4 March 2021)
- a mid-year treasury update report (submitted to the Cabinet on 30 November 2021)
- 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 2021/22, 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	2020/21 Actual £m	2021/22* Estimate £m	2021/22 Actual £m
Capital expenditure **(Indicator 1)**			
General services	39.948	59.442	41.041
HRA	44.287	43.885	48.668
Total	**84.235**	**103.327**	**89.709**
Capital Financing Requirement (CFR):			
General services	184.166	209.283	197.355
HRA	135.724	148.986	155.633
Total	**319.890**	**358.269**	**352.988**
Gross borrowing **(Indicator 4)**	251.507	289.884	258.527
Operational Boundary **(Indicator 5)**	333.483	378.399	372.562
Authorised Limit **(Indicator 6)**	366.832	416.239	409.819
Investments **(Indicator 7)**	42.258	30.000	43.506

** All figures in this report reflect the latest estimate contained within the 2022/23 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 2021/22 reflects the change in the profile of the capital programme. **Gross Borrowing** reflects the actual borrowing which has been undertaken, this was lower than anticipated due to the revised profile of capital projects and the use of internal funds, the latter being a key element of the Treasury Management Strategy to minimise costs.

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

The **Authorised Limit** is a statutory limit; it is the maximum amount of borrowing determined by the Council and should not be exceeded. The Council has set the Authorised Limit at 10% above the Operational Boundary to give some flexibility to raise funds for future year capital investment.
As noted above, the Council continues to use its internal funds to delay borrowing to minimise costs but balances this with long term borrowing to support the agreed Capital Investment Programme and to reduce the Council's exposure to interest rate risk. No **new long term borrowing** took place in 2021/22.

The **average loans fund pool rate** is the total interest paid during the year as a percentage of the total loans fund advances. In 2021/22 this decreased from 3.84% to 3.38%.

The **maturity profile** and balance between **fixed and variable rate borrowing** mitigates the Council's exposure to interest rate variations either now or when loans require to be refinanced. A total of £50.950m of the Council's loans are at a variable rate, which is in line with the strategy.

Affordability of borrowing is measured by the percentage of financing costs relative to the net revenue stream of the General Fund and Housing Revenue Account; the percentage values were lower than estimated for both the General Fund and the Housing Revenue Account. Actuals for 2021/22 were 2.5% for the General Fund and 18.7% 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 2020/21 was 5.86%, therefore demonstrating a prudent borrowing policy. For the HRA, the Scottish average in 2020/21 was 21.62%. 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 0.15% compared to a target of 0.10%. The rate secured in 2020/21 was 0.25%. The marginally higher return secured in 2021/22 reflects the gradual rises in the bank rate since December 2021.

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 2021/22

The Prudential Code establishes a framework to ensure that councils demonstrate effective control over levels of, and decisions relating to, capital investment activity, including borrowing. Treasury indicators are used to ensure that risk is managed and controlled effectively. Together the Prudential and Treasury Indicators consider the affordability and impact of capital expenditure decisions.

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

- The Council's Capital Expenditure and Financing (section a);
- The Council's Overall Borrowing Need (section b);
- Limits to Borrowing Activity (section c);
- Treasury Position at 31 March 2022 (section d); and
- Affordability Prudential Indicators (section e);

(a) The Council's Capital Expenditure and Financing 2021/22 (Prudential Indicator 1)

The Council incurs capital expenditure when it invests in its long-term assets. Capital Expenditure can be funded in two main ways:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which have no impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply other resources, then capital expenditure will give rise to borrowing which needs to be approved as part of the Council's capital investment plans.

The tables below show the actual capital expenditure incurred in 2021/22 compared with the planned investment alongside the amount financed immediately and the amount which gave rise to borrowing.

TABLE 2

General Fund	2020/21 Actual £m	2021/22 Estimate £m	2021/22 Actual £m
Capital expenditure (Indicator 1)	**39.948**	**59.442**	**41.041**
Financed in year	36.358	30.860	24.386
Unfinanced capital expenditure	**3.590**	**28.582**	**16.655**

HRA	2020/21 Actual £m	2021/22 Estimate £m	2021/22 Actual £m
Capital expenditure (Indicator 1)	**44.287**	**43.885**	**48.668**
Financed in year	29.285	26.178	24.314
Unfinanced capital expenditure	**15.002**	**17.707**	**24.354**

(b) The Council's Overall Borrowing Need (the Capital Financing Requirement) (Prudential Indicators 2 and 3)

This indicator outlines the Council's Capital Financing Requirement (CFR). The CFR is the total historic outstanding capital expenditure which has not been paid from either a capital or revenue resource and, therefore, needs to be funded from borrowing. It is essentially a measure of the Council's underlying borrowing need.

Part of the Council's treasury activity is to meet the funding requirements for this borrowing need. The treasury management section organises the Council's cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Government, the Public Works Loan Board [PWLB], other Local Authorities, or the money markets), or utilising temporary cash resources within the Council.
The Council's underlying borrowing need (CFR) is not allowed to rise indefinitely. The Council is required to make an annual revenue charge, called the Loans Fund Principal Repayment. This is effectively a repayment of the borrowing need and it is charged to revenue over the life of the asset. This charge reduces the CFR each year. This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

The total CFR can also be reduced by:

- the application of additional capital financing resources (such as capital receipts); or
- increasing the annual revenue charge

The Council's CFR for the year is a key prudential indicator and is shown below. The opening balance includes PPP/ NPD schemes on the balance sheet, which increases the Council's borrowing need. This is shown in order to give a complete picture of the Council's debt, however, no borrowing is actually required against these schemes as a borrowing facility is included in the contract and, as such, this is subsequently removed.

Table 3 shows that, based on historic capital expenditure and this year's capital expenditure, the Council has a cumulative underlying need to borrow £352.988m at 31 March 2022.

TABLE 3

CFR	2020/21 Actual £m	2021/22 Estimate £m	2021/22 Actual £m
Opening balance	309.792	319.890	319.890
Add new PPP/NPD/CVW liability	103.431	92.339	103.882
Revised Opening Balance	**413.223**	**412.229**	**423.772**
Add unfinanced capital expenditure (General Fund)	3.590	28.582	16.655
Add unfinanced capital expenditure (HRA)	15.002	17.707	24.354
Less Loans Fund Principal Repayments	(8.494)	(7.910)	(7.911)
Sub-total	**423.321**	**450.608**	**456.870**
Less PPP/NPD/CVW lease repayments	(103.431)	(92.339)	(103.882)
Closing balance (Indicator 2)	**319.890**	**358.269**	**352.988**
Annual Change (Indicator 3)	**10.098**	**38.379**	**33.098**

(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 2023/24). 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 £94.461m due to the continuing strategy to delay new external borrowing by utilising internal cash balances. The increase in the under borrowed position reflects the additional Scottish Government funding allocations received which has delayed the Councils requirement to borrow.

TABLE 4

	2020/21 Actual £m	2021/22 Estimate £m	2021/22 Actual £m
Gross borrowing position **(Indicator 4)***	251.507	289.884	258.527
CFR	319.890	358.269	352.988
(Under)/Over Borrowed Position	**(68.384)**	**(68.385)**	**(94.461)**

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

The Operational Boundary (Indicator 5)

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

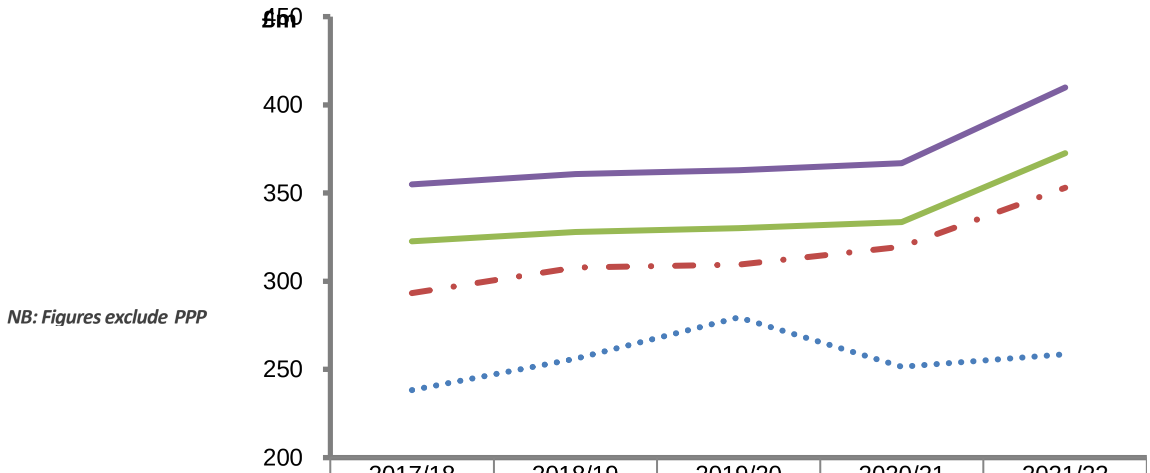
The Authorised Limit (Indicator 6)

The authorised limit represents a limit beyond which external debt is prohibited. This limit is set by Council and can only be revised by Cabinet approval. It reflects the level of external borrowing which, while not desirable, could be afforded in the short term but is not sustainable in the longer term. The current limit is set at 10% above the operational boundary.

The following graph shows the trend of the Council's gross borrowing against approved limits. This demonstrates that during 2021/22 the Council's gross borrowing was within both the operational boundary and the authorised limit by a very 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 2022' report, presented to Cabinet on 7 June 2022.

Borrowing Projection v Approved Limits



	2017/18	2018/19	2019/20	2020/21	2021/22
Gross Debt at 31 March	238.277	256.016	279.493	251.507	258.527
CFR (Borrowing need)	293.271	307.680	309.450	319.548	352.988
Operational Boundary	322.631	327.895	330.009	333.483	372.562
Authorised Limit	354.894	360.684	363.010	366.832	409.819

(d) Treasury Position at 31 March 2022 (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 2021/22

The borrowing strategy for 2021/22 anticipated bank interest rates remaining at 0.10% and that there would be marginal increases in the medium and longer term fixed borrowing rates during 2021/22. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period.

Continued economic uncertainty promoted a cautious approach, whereby investments continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

The continuing economic recovery from coronavirus pandemic, together with the war in Ukraine, higher inflation, and higher interest rates were major issues during 2021/22.

Rising, persistent inflation during the year led to gradual rises in the Bank of England base rate from December 2021 with rates rising to 0.75% in March.

Borrowing Outturn for 2021/22

At the beginning and end of 2021/22, the Councils treasury position was as follows:

TABLE 5

	31 March 2021 Principal £m	Rate/ Return %	31 March 2022 Principal £m	Rate/ Return %
Fixed rate funding:				
- PWLB	183.943	4.60%	181.055	4.68%
-Local Authorities	15.000	0.42%	25.000	0.10%
-Market	1.614	7.93%	1.522	8.40%
Variable rate funding:				
- Market	50.950	5.10%	50.950	5.10%
Total debt	**251.507**	**4.47%**	**258.527**	**4.34%**
CFR	**319.890**		**352.988**	
Over / (under) borrowing	**(68.383)**		**(94.461)**	
Investments:				
- Internally managed	42.258	0.25%	43.506	0.15%
Total investments	**42.258**		**43.506**	

The Council's gross debt position increased by £7.020m during 2021/22. A summary of the movement is outlined below.

Category of Debt	Activity	£m
Fixed - PWLB	Repayment	(2.888)
Fixed - Local Authorities	New Borrowing	10.000
Fixed - Market	Repayment	(0.092)
Net Decrease in Debt		7.020

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

Rescheduling

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

All investments at 31 March 2022 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 2022 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 2021 Actual £m	31 March 2021 Actual %	31 March 2022 Actual £m	31 March 2022 Actual %
Under 12 months	43.929	17%	76.911	30%
12 months and within 24 months	2.961	1%	2.950	1%
24 months and within 5 years	8.931	4%	10.050	4%
5 years and within 10 years	25.620	10%	24.439	9%
10 years and within 20 years	31.153		28.665	
20 years and within 30 years	7.025		6.625	
30 years and within 40 years	106.888	68%	106.887	56%
40 years and within 50 years	15.000		2.000	
50 years and above	10.000		-	
Total Borrowing	**251.507**	**100%**	**258.527**	**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

	2020/21 Actual £m	2021/22 Limit £m	2021/22 Actual £m
Limit on fixed rate (principal)	200.557	306.895	207.577
Limit on variable rate (principal)	50.950	60.000	50.950

Estimates of prudent Loans Fund repayment

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

The 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
2021/22 Actual	319.890	16.655	24.354	-3.466	-4.445	352.988
2022/23 - 26/27	352.988	203.199	217.298	-28.496	-43.418	701.571
2027/28 - 31/32	701.571	6.849	31.282	-33.512	-54.388	651.803
2032/33 - 36/37	651.803	0.000	71.890	-40.391	-74.811	608.491
2037/38 - 41/42	608.491	0.000	141.789	-45.613	-99.512	605.155
2042/43 - 46/47	605.155	0.000	43.007	-51.216	-102.841	494.104
2047/48 - 51/52	494.104	0.000	0.000	-60.681	-94.499	338.924
2052/53 - 56/57	338.924	0.000	0.000	-46.386	-96.492	196.046
2057/58 - 61/62	196.046	0.000	0.000	-34.390	-76.992	84.664
2062/63 - 66/67	84.664	0.000	0.000	-33.038	-17.946	33.680
2067/68 & later	33.680	0.000	0.000	-33.680	0.000	0.000

(e) Affordability Prudential Indicators (Prudential Indicators 10 - 12)

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

Actual financing costs as a proportion of net revenue stream

This indicator identifies the trend in the cost of capital (borrowing and other long-term obligation costs net of investment income) against the net revenue stream and is a measure of affordability for debt repayment. Actuals for 2021/22 were 2.5% for the General Fund and 18.7% for the Housing Revenue Account. The rising ratio within the HRA is indicative of the significant capital investment programme as outlined in the Strategic Housing Investment Plan. Capital expenditure impacts on the revenue budget through financing charges so it is essential the Council ensures the financing costs remain affordable and do not constitute an excessive proportion of the revenue resources available. From a General Fund perspective, the Scottish Local Authority average in 2020/21 was 5.86%, therefore demonstrating a prudent borrowing policy. For the HRA, the Scottish average was 21.62%. 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	2020/21 Actual	2021/22 Estimate	2021/22 Actual
General Services	3.0%	3.0%	2.5%
HRA	17.7%	18.7%	18.7%

4. Investment Rates and Outturn 2021/22

Interest Rates

The Bank of England base was 0.1% at the beginning of 2021/22 and was anticipated to remain at that level until 2022. However , rising, persistent inflation changed that and incremental increased in the bank rate commenced in December 2021, rising to 0.75% in March. Deposit rates have increased during 2021/22 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 4 March 2021. This policy sets out the approach for choosing investment counterparties and is based upon: new bank resolution regulations, where failing banks will not be bailed-out but 'bailed-in' by unsecured investors that can include local authorities; the capacity of banks to absorb unexpected losses; and credit ratings provided by the leading credit rating agencies. This is supplemented by additional market data (such as economic data, credit default swaps, bank share prices etc.).

Resources

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

TABLE 9

Cash Balances	2020/21 Actual	2021/22 Actual
	£m	£m
1 April	39.657	42.258
31 March	42.258	43.506
Change in year	**2.601**	**1.249**

Investments held by the Council

The Council maintained an average balance of £32.941m of internally managed funds and utilised cash balances during the year in support of the under-borrowed position. The internally managed funds, primarily invested in call accounts with banks, Money Market Funds and other UK local authorities, earned a weighted average rate of return of 0.15%. This compares to a rate of 0.25% in 2020/21. Performance was above the target rate of 0.10% and reflects the gradual rises in the bank rate since December 2021 and the short term nature of our investments and our overall investment objectives of security and liquidity.

5. Performance Measurement

One of the key requirements in the Code is the formal introduction of performance measurement relating to investments, debt and capital financing activities. Whilst investment performance criteria have been well developed and universally accepted, debt performance indicators continue to be a more problematic area with the traditional average portfolio rate of interest acting as the main guide.

The Council's treasury management advisors are Arlingclose Limited. Arlingclose has five Scottish Local Authorities in their client group and provide regular investment benchmarking information to the Council. In terms of performance in 2021/22, North Ayrshire Council's average weighted rate of return on investments during 20/21 was 0.15% (20/21 0.25%). The actual rate of return on investments as at 31 March for North Ayrshire Council was 0.27% compared to the group average rate of 0.45%.

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