Item 9

North York Moors National Park Authority
Finance, Risk, Audit and Standards Committee

25 November 2013

Mid Year Treasury Management Review

Report of the Treasurer

1. **Purpose of the Report**

1.1 To present details of the Authority's 2013/14 Treasury Management activity up to 30 September 2013, together with a mid year review of the Strategy and a Prudential Indicators update.

2. **Background**

2.1 The Treasury Management function is concerned with the management of the Authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

2.2 Members will be aware that the Treasury Management investment activities function is undertaken on behalf of the Authority by North Yorkshire County Council via a Service Level Agreement. Under the terms of this agreement the County Council pools the monies it invests on behalf of the Authority with its own funds and those of other organisations for which it undertakes a treasury management service.

2.3 The process of Treasury Management in the Public Services is regulated by the ***CIPFA Code of Practice on Treasury Management***. Furthermore, the Authority must also comply with the **CIPFA Prudential Code for Capital Finance in Local Authorities.**

2.4 This report is submitted under the terms of the latest ***CIPFA Code of Practice on Treasury Management*** which requires the Authority to present a mid year review of Treasury Management activity and other current policy issues and considerations. The report has been prepared in the context of the Annual Treasury Management Strategy approved by the Authority on 25 March 2013.

3. **Review of Annual Treasury Management and Annual Strategy 2013/14**

3.1 The Authority's Treasury Management and Investment Strategy for 2013/14 was approved by the Authority on 25 March 2013. This Annual Strategy sets out the Authority's approach to managing its Treasury Management activities for the year ahead – 2013/14.

3.2 Annual strategies need to be reviewed and adopted in reaction to events and changing circumstances. Thus a key requirement of the updated CIPFA Code of Practice for Treasury Management issued in November 2011 is that Annual Treasury Management Strategies should be kept under constant review throughout the year and reported to Members as appropriate. There is a specific requirement of a mid year review as a minimum being reported to Members.

3.3 In conjunction with officers of the County Council, the Authority's 2013/14 Annual Treasury Management and Investment Strategy as approved in March 2013 is, therefore, being kept under continuous review. Although there continues to be considerable uncertainty and volatility in the financial and banking market, both globally and in the UK, in this context it is considered that the Strategy approved in March 2013 is still fit for purpose in the current economic climate. No changes are, therefore, considered necessary at this stage.

4. Investment Activity

4.1 Under the contractual arrangements with North Yorkshire County Council for the investment of surplus cash balances the Authority adopts the investment strategy adopted by the County Council. The net return/cost achieved by the County Council is closely monitored by the Treasurer.

4.2 The County Council operates a 'sweep' arrangement under which any surplus cash of the Authority is merged with that of the County Council to secure better overall returns in the money market. Interest is paid at the overall average rate achieved by the County Council.

4.3 Any loss incurred by the County Council as a result of default by a counterparty would be apportioned between the County Council and the Authority, and other organisations operating a similar arrangement with the County Council, in proportion to the total surplus cash funds at the time of default.

4.4 The Treasury Management and Investment Strategy for 2013/14, approved by the Authority on 25 March 2013, outlines the Authority's investment priorities as follows:

(a) security of capital
(b) liquidity

4.5 The Authority also aims to achieve the optimum return on investments commensurate with the appropriate levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments relatively short term to cover cash flow needs, but also to seek any value available in significantly higher rates for periods up to 12 months with highly credit rated financial institutions, where this is possible within the constraints of the latest lending list.

4.6 The only financial investments made by the Authority in 2013/14 up to 30 September 2013 were the placing of surplus funds on the money markets for periods up to one year. These placements were only made to institutions included in the Approved Lending List at the time of investment. For this Authority the results of these placings were as follows:

Average daily balance up to 30 September 2013	£2,099.6k
Interest Earned up to 30 September 2013	£9.8k
Average Rate achieved up to 30 September 2013	**0.85%**

The £9.8k interest earned was below the profiled budget figure of £16.2k as investment rates in the market have continued at historically low levels. Rates have in fact fallen further during the quarter largely as a result of the Governments Funding for Lending scheme.

5. **Approved Lending List**

5.1 The County Council's Approved Lending List as at 30 September 2013 is attached as **Appendix A**.

5.2 Subsequent to 30 September 2013 investment limits for 3 key 'high quality' counterparties were increased on 15 October 2013. The increases were agreed as part of a review of investments in order to increase the exposure levels of the main 'high quality' UK banks and being prepared for increased cash balances and/or other counterparties being suspended from the lending list. The changes were as follows:

- Lloyds Bank Group limit increased from £65m to £75m
- Royal Bank of Scotland limit increased from £65m to £75m
- Barclays limit increased from £55m to £65m

6. **Interest Rate Forecasts**

6.1 The current interest rate forecast of Capita Asset Services (the County Council's TM advisor, formerly known as Sector) is as follows:

Date	**Bank Rate %**
Current Rate	0.50
March 2014	0.50
September 2014	0.50
March 2015	0.50
September 2015	0.50
March 2016	0.50
September 2016	0.75
March 2017	1.25

6.2 Points to highlight in relation to the above table are as follows:

- Capita Asset Services, undertook a review of their interest rate forecasts in late September as a result of an increase in confidence in the economic recovery, chiefly in the US but more recently in the UK and the Eurozone.
- Capita's key forecast is now for a first increase in Bank Rate around September 2016

7. **Prudential Indicators**

7.1 The Prudential Code requires appropriate arrangements to be in place for the monitoring, reporting and revision of Prudential Indicators.

7.2 The Prudential Indicators for the three year period 2013/14 to 2015/16 were approved by the Authority on 25 March 2013. The Annual Treasury Management and Prudential Indicators report for 2012/13 was submitted to the Authority on 20 May 2013. This reported the 2012/13 outturn position on Prudential Indicators compared with the last updated set of Indicators for the year, as approved by the Authority on 25 March 2013. The 2012/13 outturn report did not, however, consider any consequential changes to the various indicators set for the three year period 2013/14 to 2015/16.

7.3 It is, therefore, necessary to consider and revise the Prudential Indicators for the three years up to 31 March 2016. A Prudential Indicators update is therefore attached as **Appendix B**.

7.4 None of the Prudential Indicators were breached up to 30 September 2013.

8. Recommendation

8.1 That the Finance, Risk, Audit and Standards Committee:

(i) notes the position on the Authority's 2013/14 Treasury Management activities up to 30 September 2013

(ii) approves the revised Prudential Indicators for the period 2013/14 to 2015/16, as set out in **Appendix B** including the revised Prudential Indicator 4 – Authorised Limit for External Debt for 2013/14 of £593.0k.

Contact Officer
Peter Yates
Treasurer, Central Services
County Hall, Northallerton
Tel No 01439 772700

Appendix A

Approved Lending List As At 30 September 2013

Maximum sum invested at any time (The overall total exposure figure covers both Specified and Non-Specified investments)

	Country	Specified Investments (up to 1 year)		Non-Specified Investments (> 1 year £12m limit)	
		Total Exposure £m	Time Limit *	Total Exposure £m	Time Limit *
UK "Nationalised" banks / UK banks with UK Central Government involvement					
Royal Bank of Scotland	GBR	65.0	364 days	-	-
Natwest Bank	GBR				
Ulster Bank Ltd	GBR				
Bank of Scotland	GBR	65.0	364 days	-	-
Lloyds TSB	GBR				
UK "Clearing Banks" and organisations covered by the UK Government guarantee of liquidity					
Santander UK plc (includes Cater Allen)	GBR	40.0	3 months	-	-
Barclays Bank	GBR	55.0	3 months	-	-
HSBC	GBR	30.0	364 days		
Clydesdale Bank (trading as Yorkshire Bank)	GBR	30.0	Temporarily suspended	-	-
Nationwide Building Society	GBR	40.0	3 months	-	-
Other UK based banks and high quality Foreign Banks					
National Australia Bank	AUS	See Clydesdale above		-	-
Canadian Imperial Bank of Commerce	CAN	20.0	364 days	-	-
Deutsche Bank	DEU	20.0	3 months	-	-
Nordea Bank Finland	FIN	20.0	6 months	-	-
Credit Industriel et Commercial	FRA	20.0	6 months	-	-
BNP Paribas Fortis	FRA	20.0	3 months	-	-
Nordea Bank AB	SWE	20.0	364 days	-	-
Svenska Handelsbanken	SWE	40.0	364 days	-	-
Local Authorities					
County / Unitary / Metropolitan / District Councils		20.0	364 days	5.0	2 years
Police / Fire Authorities		20.0	364 days	5.0	2 years
National Park Authorities		20.0	364 days	5.0	2 years
Other Deposit Takers					
Money Market Funds		20.0	364 days	5.0	2 years
UK Debt Management Account		100.0	364 days	5.0	2 years

* Based on data as 27 September 2013

Prudential Indicators Update – For 2013/14 to 2015/16

The updated Prudential Indicators set out below are based upon the latest estimates for capital expenditure and financing.

The Prudential Indicators set in March 2013 have been updated to reflect the revised capital expenditure forecast as well as the latest forecast interest rates for both potential borrowing and investment income.

The Prudential Indicators include the lease of the Danby Lodge Moors Centre. Following the introduction of the International Financial Reporting Standards (IFRS), finance leases (those leases where the terms of the agreement effectively determine that the lessee is purchasing the leased item over the term of the lease) are now included within the Balance Sheet and as a result within the Prudential Indicators. It should be noted that this is a technical adjustment and does not commit the Authority to any external borrowing.

1. **Estimated Ratio of Capital Financing Costs to the Net Revenue Budget (Affordability)**

   This indicator identifies the trend in the cost of borrowing (principal and interest) net of interest earned on temporary balances against net revenue expenditure met from National Park Grant

   The estimated ratios for the current and future years and the actual figures for 2011/12 and 2012/13 are set out in the table below. As the interest on balances exceeds the cost of borrowing set out in the later indicators, the effective percentage is NIL in all cases.

Year	**Approved 25 March 2013**		**Update 25 November 2013**	
	Basis	**%**	**Basis**	**%**
2011/12	actual	0	actual	0
2012/13	probable	0	actual	0
2013/14	estimate	0	estimate	0
2014/15	estimate	0.07	estimate	0.12
2015/16	estimate	0.48	estimate	0.53

2. **Capital Expenditure Plans (Actual and Estimated)**

   The actual capital expenditure that was incurred by the Authority in 2011/12 and 2012/13 and the estimates of capital expenditure to be incurred for 2013/14 and future years are outlined in the table below.

   It is important to note that this table reflects the total capital spending plans for the Authority funded by both borrowing, National Park Grant and other external funding sources. All the prudential indicators that follow are based upon the possible borrowing element of these spending plans only, but do not commit the authority to using this source of finance.

   The capital expenditure plans listed below are estimated costs of ad hoc / refurbishment expenditure.

Year	Approved 25 March 2013		Update 25 November 2013	
	Basis	**£000**	**Basis**	**£000**
2011/12	actual	306.0	actual	306.0
2012/13	probable	295.0	actual	339.0
2013/14	estimate	175.0	estimate	175.0
2014/15	estimate	125.0	estimate	125.0
2015/16	estimate	375.0	estimate	375.0

Capital expenditure for 2012/13 was £339k. The increase in expenditure from the forecast reported in March 2013 (£44k) predominantly relates to additional expenditure on vehicles and equipment.

3. Capital Financing Requirement and Forecast (CFR)

The capital financing requirement relates to the underlying need of the Authority to borrow to finance capital purposes. Estimates of the capital financing requirement at the future financial year end dates are as follows:-

Year	Approved 25 March 2013		Update 25 November 2013	
	Basis	**£000**	**Basis**	**£000**
31 March 2012	actual	178.8	actual	178.8
31 March 2013	probable	178.7	actual	178.7
31 March 2014	estimate	306.2	estimate	343.0
31 March 2015	estimate	398.5	estimate	432.4
31 March 2016	estimate	705.4	estimate	736.4

The actual figures for 2011/12 and 2012/13 are not 'proper borrowing' but consist of the Danby Moors Centre finance lease, which is defined as 'other long term liabilities' and under IFRS are reported as borrowing and included in the CFR (see introductory paragraphs of Appendix B).

4. Authorised Limit for External Debt

This indicator represents the limit beyond which borrowing by the Authority is prohibited, and is based upon the best estimate of increases in debt arising from the capital financing requirement plus a margin to allow some flexibility for unforeseen cash movements. This has been included at £250,000.

The Treasurer has delegated authority to effect any changes between the separately agreed limits for borrowing and other long term liabilities, in accordance with option appraisal, value for money and any other relevant factors. At this stage no other long term liabilities have been identified.

The recommended Authorised limits for external debt are as follows:

Year	Approved 25 March 2013 Borrowing Limit £000	Update 25 November 2013 Borrowing Limit £000
2012/13	428.7	N/A
2013/14	556.2	593.0
2014/15	648.5	682.4
2015/16	955.4	986.4

The updated figures include the finance lease referred to the introductory paragraphs of this appendix, which is defined as 'long term liability liability'.

The Treasurer can confirm that the Authorised Limit is consistent with the Authority's current commitments and budget process.

Under **Section 3(1) of the Local Government Act 2003** the Authority must determine a Statutory Limit in terms of how much money it can afford to borrow. This affordable borrowing limit must be set for the following year. The Authorised limit of **£593.0k** will act as this limit for 2013/14 and replaces the previously approved figure of £556.2k in March 2013.

5. **Operational Boundary for External Debt**

This indicator is based on the probable external debt position during the course of the year. It is not a limit and actual borrowing could vary around this boundary during the year. The difference between this indicator and the Authorised Limit is the £250k which provides headroom for unusual cash movements.

The Treasurer has delegated authority to make in year changes to the operational boundary and its sub categories.

Year	**Approved 25 March 2013 Borrowing Limit £000**	**Update 25 November 2013 Borrowing Limit £000**
2012/13	178.7	N/A
2013/14	306.2	343.0
2014/15	398.5	432.4
2015/16	705.4	736.4

The updated figures include the finance lease referred to the introductory paragraphs of this appendix, which is defined as 'long term liability'.

6. **Actual External Debt**

The Prudential Indicators have been calculated to incorporate the flexibility of using prudential borrowing to fund capital expenditure. However, the Authority had no external debt at 30 September 2013 and it is expected that this will be the position as at 31 March 2014. This indicator remains unchanged from the original position reported 25 March 2013.

7. **Interest Rate Exposures**

Borrowing	**%age of outstanding principal sums**
Limits on fixed interest rate exposures	60 to 100
Limits on variable interest rate exposures	0 to 40
Investing	
Limits on fixed interest rate exposures	0 to 30
Limits on variable interest rate exposures	70 to 100
Combined net borrowing/investment position	
Limits on fixed interest rate exposures	110 to 150%
Limits on variable interest rate exposures	-10 to -50

No changes to these limits approved by the Authority on 25 March 2013 are required.

8. **Maturity Structure of Borrowing**

Upper and lower limits for the maturity structure of borrowings are set to allow maximum flexibility -

Period	**Lower Limit**	**Upper Limit**
Under 12 months	0%	100%
12 months and within 24 months	0%	100%
24 months and within 5 years	0%	100%
5 years and within 10 years	0%	100%
10 years and above	0%	100%

No changes to these limits approved by the Authority on 25 March 2013 are proposed.

9. **Total Principal Sums Invested for Periods longer than 364 days**

In line with the County Council's policy and advice in this area, a prudential indicator of **20%** of the Authority's core cash balances is recommended for investments longer than 364 days.

A maximum of 20% of funds available for investment will be held in aggregate in "Non-Specified investments" over 364 days.

This indicator remains unchanged from the original position reported 25 March 2013.