Item 8

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

24 November 2014

Mid-Year Treasury Management Review

Report of the Treasurer

1. **Purpose of the Report**

1.1 To present details of the Authority's 2014/15 Treasury Management activity up to 30 September 2014, 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 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 similar 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 24 March 2014.

3. **Review of Annual Treasury Management and Annual Strategy 2014/15**

3.1 The Authority's Treasury Management and Investment Strategy for 2014/15 was approved by the Authority on 24 March 2014. This Annual Strategy sets out the Authority's approach to managing its Treasury Management activities for the year ahead – 2014/15.

3.2 A key requirement of the CIPFA Code of Practice for Treasury Management is that the Annual Treasury Management Strategy should be kept under constant review and reported to Members as appropriate. The Code therefore, requires that a mid-year review is reported to Members.

3.3 In conjunction with officers of the County Council, the Authority's 2014/15 Annual Treasury Management and Investment Strategy as approved in March 2014 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 2014 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 cash balances the Authority adopts the investment strategy adopted by the County Council. The net return 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 and several other organisations 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 2014/15, approved by the Authority on 24 March 2014, 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 at 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 2014/15 up to 30 September 2014 were the placing of surplus funds on the money markets and directly with other local authorities 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 2014	£1,713.3k
Interest Earned up to 30 September 2014	£5.4k
Average Rate achieved up to 30 September 2014	**0.63%**

The £5.4k interest earned from 1 April to 30 September 2014 was slightly below the profiled budget figure of £7.5k as investment rates in the market have continued at historically low levels with further reductions during the first half of 2014/15.

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5. Approved Lending List

5.1 The County Council's Approved Lending List as at 30 September 2014 is attached as **Appendix A**.

5.2 The Approved Lending List is monitored on an on-going basis and changes made as appropriate by the Treasurer to reflect changes in organisations' standings against the agreed criteria. Changes can be made on a daily basis in reaction to market sentiment with maximum investment durations being adjusted accordingly. In addition, the Approved Lending List is continuously reviewed in order to further increase investment opportunities. As a result, the following counterparties have been added to the lending list in the first 6 months of the year:

- Goldman Sachs – Limit: £40m; Duration: 3 months
- Commonwealth Bank of Australia – Limit: £20m; Duration: 364 days

6. Interest Rate Forecasts

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

Date	**Bank Rate %**
Current Rate	0.50
December 2014	0.50
March 2015	0.50
June 2015	0.75
September 2015	0.75
December 2015	1.00
March 2016	1.00
June 2016	1.25
September 2016	1.25
December 2016	1.50
March 2017	1.50
June 2017	1.75
September 2017	2.00
December 2017	2.25
March 2018	2.50

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 October as a result of a change of sentiment in financial markets, subdued UK inflation, greater risk of deflation in the Eurozone and increased caution over UK growth within the MPC.

- This review resulted in their first forecast increase in bank rate from 0.5% to 0.75% being pushed back from February 2015 to May/June 2015. This forecast then suggests subsequent further increases of 0.25% to reach 2.5% by March 2018.

- As economic forecasting remains difficult with so many external influences weighing on the UK, bank rate forecasts will be liable to further amendment depending on how economic data transpires over the remainder of 2014 and in to 2015. Thus caution must be exercised in respect of all interest rate forecasts at the current time.

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 2014/15 to 2016/17 were approved by the Authority on 24 March 2014. The Annual Treasury Management and Prudential Indicators report for 2013/14 was submitted to the Authority on 19 May 2014. This reported the 2013/14 outturn position on Prudential Indicators compared with the last updated set of Indicators for the year, as approved by the Authority on 24 March 2014. The 2013/14 outturn report did not, however, consider any consequential changes to the various indicators set for the three year period 2014/15 to 2016/17.

7.3 It is therefore necessary to consider and revise the Prudential Indicators for the three years up to 31 March 2017. A Prudential Indicators update is attached as **Appendix B**.

7.4 None of the Prudential Indicators were breached up to 30 September 2014.

7.5 A revised set of Prudential Indicators covering the 3 year period 2015/16 to 2017/18 will be submitted to Finance, Risk, Audit and Standards Committee in February 2015.

8. **Recommendation**

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

(i) Notes the position on the Authority's 2014/15 Treasury Management activities up to 30 September 2014

(ii) Approves the revised Prudential Indicators for the period 2014/15 to 2016/17, as set out in **Appendix B** including the revised Prudential Indicator 4 – Authorised Limit for External Debt for 2014/15 of £428.5k.

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Appendix A

Approved Lending List as At 30 September 2014

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 £20m 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	75.0	364 days	-	-
Natwest Bank	GBR				
Ulster Bank Ltd	GBR				
Bank of Scotland	GBR	75.0	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	6 months	-	-
Barclays Bank	GBR	65.0	6 months	-	-
HSBC	GBR	30.0	364 days		
Clydesdale Bank (trading as Yorkshire Bank)	GBR	30.0 (shared with NAB)	Temporarily suspended	-	-
Nationwide Building Society	GBR	40.0	6 months	-	-
Other UK based banks and high quality Foreign Banks					
National Australia Bank	AUS	30.0 (shared with Clydesdale)	364 days	-	-
Commonwealth Bank of Australia	AUS	20.0	364 days	-	-
Canadian Imperial Bank of Commerce	CAN	20.0	364 days	-	-
Deutsche Bank	DEU	20.0	6 months	-	-
Nordea Bank Finland	FIN	20.0	364 days	-	-
Credit Industriel et Commercial	FRA	20.0	6 months	-	-
BNP Paribas Fortis	FRA	20.0	6 months	-	-
Goldman Sachs International	GBR	40.0	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 26 September 2014

Prudential Indicators Update – For 2014/15 to 2016/17

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

The Prudential Indicators set in March 2014 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.

It is important to note that these Prudential Indicators reflect the total capital spending plans for the Authority funded by 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 2014/15 to 2016/17 Prudential Indicators approved on 24 March 2014 were calculated on the basis that capital expenditure in 2014/15 would be funded from borrowing. As 2014/15 capital expenditure is now not expected to be funded from borrowing, the Prudential Indicators below have been updated to reflect this.

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 2012/13 and 2013/14 are set out in the table below.

Year	**Approved 24 March 2014**		**Update 24 November 2014**	
	Basis	**%**	**Basis**	**%**
2012/13	actual	0.00	actual	0.00
2013/14	probable	0.00	actual	0.00
2014/15	estimate	0.00	estimate	0.00
2015/16	estimate	0.18	estimate	0.00
2016/17	estimate	0.74	estimate	0.00

The forecast cost of borrowing has reduced as 2014/15 capital expenditure is now expected to be funded from revenue and the capital expenditure forecast for 2014/15 – 2016/17 has reduced (see Section 2 below). Therefore, as the interest on balances exceeds the cost of borrowing set out in the indicators, the effective percentage is now NIL in all cases.

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

The actual capital expenditure that was incurred by the Authority in 2012/13 and 2013/14 and the estimates of capital expenditure to be incurred for 2014/15 and future years are outlined in the table below.

The capital expenditure plans listed below are estimated costs of vehicles, IT equipment and property refurbishment costs.

Year	Approved 24 March 2014 Basis	£000	Update 24 November 2014 Basis	£000
2012/13	actual	339.9	actual	339.9
2013/14	probable	175.0	actual	187.7
2014/15	estimate	125.0	estimate	40.0
2015/16	estimate	375.0	estimate	75.0
2016/17	estimate	125.0	estimate	175.0

Capital expenditure for 2013/14 was £187.7k. The increase in expenditure from the forecast reported in March 2014 (£15k) predominantly relates to additional expenditure on vehicles and equipment.

The updated capital expenditure plans 2014/15 – 2016/17 now reflects the latest profile of expenditure on building refurbishments, vehicle purchases and IT requirements.

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 24 March 2014				Update 24 November 2014			
	Basis	Borrowing	Other L.T. Liabilities	Total	Basis	Borrowing	Other L.T. Liabilities	Total
	£k	£k	£k	£k	£k	£k	£k	£k
2012/13	actual	0.0	178.7	178.7	actual	0.0	178.7	178.7
2013/14	probable	0.0	178.6	178.6	actual	0.0	178.6	178.6
2014/15	estimate	125.0	178.5	303.5	estimate	0.0	178.5	178.5
2015/16	estimate	475.0	178.4	653.4	estimate	75.0	178.4	253.4
2016/17	estimate	540.0	178.3	718.3	estimate	235.0	178.3	413.3

The actual figures for 2012/13 and 2013/14 relate to 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).

The updated Capital Financing Requirement for 2014/15 has reduced as 2014/15 capital expenditure is now expected to be funded from revenue. Furthermore, the CFR for 2015/16 & 2016/17 has reduced in line with the updated capital expenditure forecast (see Section 2 above).

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 24 March 2014			Update 24 November 2014		
	Borrowing £k	Other L.T. Liabilities £k	Total £k	Borrowing £k	Other L.T. Liabilities £k	Total £k
2013/14	250.0	178.6	428.6	N/A	N/A	N/A
2014/15	375.0	178.5	553.5	250.0	178.5	428.5
2015/16	725.0	178.4	903.4	325.0	178.4	503.4
2016/17	790.0	178.3	968.3	485.0	178.3	663.3

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

The updated Authorised Limit for 2014/15 has reduced as 2014/15 capital expenditure is now expected to be funded from revenue. Furthermore, the Limit for 2015/16 & 2016/17 has reduced in line with the updated capital expenditure forecast.

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 **£428.5k** will act as this limit for 2014/15 and replaces the previously approved figure of £553.5k in March 2014.

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 24 March 2014			Update 24 November 2014		
	Borrowing £k	Other L.T. Liabilities £k	Total £k	Borrowing £k	Other L.T. Liabilities £k	Total £k
2013/14	0.0	178.6	178.6	N/A	N/A	N/A
2014/15	125.0	178.5	303.5	0.0	178.5	178.5
2015/16	475.0	178.4	653.4	75.0	178.4	253.4
2016/17	540.0	178.3	718.3	235.0	178.3	413.3

As with the Authorised Limit for external debt, the Operational Boundary for external debt has also been updated to reflect the latest capital expenditure and funding profiles.

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 2014 and it is expected that this will be the position as at 31 March 2015. This indicator remains unchanged from the original position reported 24 March 2014.

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 24 March 2014 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 24 March 2014 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 a maximum 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 24 March 2014.