Item 8

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

1 June 2015

Annual Treasury Management and Prudential Indicators Outturn Report 2014/15

Report of the Treasurer

1.	**Purpose**
1.1	To present the results of the Treasury Management operations of the Authority for 2014/15 and the outturn position on Prudential Indicators.

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 Public Services is regulated by the ***CIPFA Code of Practice on Treasury Management***. In addition, 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 ***CIPFA Code of Practice on Treasury Management*** and has been prepared in the context of the Annual Treasury Management Strategy for 2014/15 approved by the Authority on 24 March 2014.

Treasury Management Strategy 2014/15

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

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

2.7 The expectation for interest rates incorporated within the Annual Treasury Management Strategy for 2014/15 was prepared by the County Council with assistance from the County Council's Treasury Management Adviser and supported by a selection of City forecasts. What actually happened and / or was experienced in 2014/15 is explained in **paragraph 2.10**.

2.8 The interest rates for the UK were expected to be as follows:

Bank base rate was expected to remain at 0.5% until a first increase in around June 2016 to 0.75%. Rates were then expected to rise along with economic recovery reaching 1.25% by March 2017.

Longer term Public Works Loan Board (PWLB) rates were forecast to rise gradually in all periods throughout the next three years. Variable and short term rates were expected to be the cheaper form of borrowing over the period.

2.9 Based on the above, the Strategy adopted by the Authority for 2014/15 was as follows:

(a) Investment of Cash (Investment Strategy 2014/15)

The Authority's investment priorities are firstly the security of capital and secondly the liquidity of its investments. The highest return (yield) will also be sought on investments provided that proper levels of security and liquidity are achieved. The investment risk appetite of the Authority is low in order to give priority to the security of investments.

Bearing in mind the above investment priorities the investment strategy was to maximise interest receipts by investing all cash balances until required for varying periods on the money market, commensurate with proper levels of security and liquidity.

Investments would only be made within the constraints of the approved Annual Investment Strategy (AIS).

(b) Long Term Debt to Finance Capital Expenditure (Borrowing Strategy 2014/15) (although not expected to be applicable to this Authority)

Consideration would be given to financing capital expenditure by taking borrowing from the PWLB (over periods up to 50 years) or the money markets (over a period of up to 70 years).

Depending on the relationship between short term variable interest rates and the fixed term PWLB rates for longer periods, consideration would also be given to financing capital expenditure by short term borrowing from the Authority's cash balances.

Borrowing and Investment Rates In 2014/15

2.10 **Paragraph 2.7** above sets out the forecast for interest rates in 2014/15 as included in the Treasury Management Strategy approved in March 2014. The actual resulting interest position experienced during the year was as follows:

PWLB Rates

The spread on shorter term period loans was around 1.5% (between 2.2% and 3.7% for a 10 year loan) and the spread on longer term loans was also in the region of 1.5% (between 2.8% and 4.3% for a 50 year loan).

Investment Rates

Deposit rates remained depressed throughout the year, primarily due to the continuing effects of the Government's Funding for Lending Scheme. This scheme which was introduced in 2012 resulted in a flood of cheap credit being made available to banks which then resulted in money market investment rates falling drastically in the second half of that year and continuing ever since.

Bank Base Rate and the Economy

Bank Rate remained at its historic low of 0.5% throughout the year and has now remained unchanged for six years. Market expectations as to the timing of the start of monetary tightening started the year at early in 2015 but then moved back to around September 2016 by the end of the year.
At the beginning of 2014/15 unemployment rate had fallen much faster than expected through the Bank of England's initial forward guidance target of 7% and the first increase in Bank Rate was anticipated in early 2014/15. In May, however, the Bank revised its forward guidance.

A combination of very weak pay rises and inflation above the rate of pay rises meant that consumer disposable income was still being eroded and in August the Bank halved its forecast for pay inflation in 2014 from 2.5% to 1.25%. Expectations for the first increase in Bank Rate therefore started to recede as growth was still heavily dependent on buoyant consumer demand.

During the second half of 2014 financial markets were caught out by a halving of the oil price and the collapse of the peg between the Swiss franc and the Euro and fears increased considerably that the ECB was going to do too little too late to ward off the threat of deflation and recession in the Eurozone.

By the end of 2014, it was clear that inflation in the UK was going to head towards zero in 2015 and possibly even turn negative. In turn, this made it clear that the MPC would have great difficulty in starting to raise Bank Rate in 2015 while inflation was around zero and so market expectations for the first increase receded back toward the end of 2016.

Gilt yields were on a falling trend for much of the last eight months of 2014/15 but were then pulled in different directions by increasing fears after the anti-austerity parties won power in Greece in January; developments since then have increased fears that Greece could be heading for an exit from the Euro. Another downward pressure on gilt yields was the announcement in January that the ECB would start a major programme of quantitative easing, purchasing Eurozone government and other debt in March.

Borrowing Outturn for 2014/15

2.11 The Authority does not have any external loans in place and had no requirement to borrow in order to fund capital expenditure. Despite this position, the possibility of borrowing is an option that the Authority has ensured is available to it when making decisions on the optimum way to finance capital expenditure.

Investment Outturn for 2014/15

2.12 Under the contractual arrangements with North Yorkshire County Council for the investment of cash balances the Authority adopts the investment strategy approved by the County Council. The net return achieved by the County Council is closely monitored by the Treasurer.

2.13 The Treasury Management and Investment Strategy for 2014/15 outlined the Authority's investment priorities as follows:

(a) security of capital
(b) liquidity

2.14 The Treasury Management and Investment Strategy also set out the aim 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 possible within the constraints of the latest lending list.

2.15 The only financial investments made by the Authority in 2014/15 were the placing of 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 during 2014/15	£1,844k
Interest Earned	£12.1k
Average Rate achieved 2014/15	**0.65%**

The average rate achieved by the Authority of 0.65% exceeded the average bank rate of 0.5% (by 0.15%).

2.16 No institutions in which investments were made had any difficulty in repaying investments and interest in full during the year.

Compliance with Treasury Limits and Prudential Indicators

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

2.18 **During the financial year the Authority operated within the Treasury Limits and Prudential Indicators as set out in the Authority's Treasury Management Policy Statement and Annual Treasury Management Strategy.**

2.19 The Prudential Indicators covering the period up to 31 March 2017 were approved by the Authority on 24 March 2014. More recently an updated set of indicators up to 31 March 2018 was approved by the Authority on 25 March 2015.

2.20 As part of this Annual Treasury Management Report for 2014/15 it is therefore appropriate to report the 2014/15 outturn position on these Prudential Indicators compared with the last updated set of indicators for the year, as approved by the Authority on 25 March 2015.

(i) **Statutory Affordable Borrowing Limit for 2014/15 required under Section 3 of the Local Government Act 2003**

	Borrowing	Other Long Term Liabilities	Total
	£k	**£k**	**£k**
Initial figure approved March 2014	250.0	178.5	428.5
Revised March 2015	250.0	178.5	428.5
Actual limit of external debt reached during 2014/15	**0**	**178.5**	**178.5**

Although the Authority had no external debt as at 31 March 2015, other long term liabilities such as the finance lease for the Danby Moors Centre are classed as external debt for the purposes of these prudential indicators. Thus, the limit set reflects sufficient headroom to cover a number of eventualities that could have occurred in the course of the financial year.

(ii) **Actual External Debt**

	Borrowing	Other Long Term Liabilities	Total
	£k	**£k**	**£k**
At 31 March 2014	0	178.5	178.5
At 31 March 2015	**0**	**178.5**	**178.5**

The Authority does not have any loans in place and has no currents requirement to borrow in order to fund capital expenditure.

(iii) **Ratio of Capital Financing Costs to the Net Revenue Budget**

Reported March 2015	**%**
• 2013/14 actual	0
• 2014/15 probable	0
Actual 2014/15 outturn	**0**

(iv) **Capital Expenditure Actual and Forecasts**

Reported March 2015	£k
• 2013/14 actual	187.7
• 2014/15 probable	40.0
Actual 2014/15 outturn	**48.6**

Actual capital expenditure in 2014/15 related to rangers vehicles and estate services equipment (£27.7k) and IT equipment (£20.9k). Capital expenditure was funded predominantly from within the revenue budget.

(v) **Capital Financing Requirement (as at 31 March)**

	Borrowing	**Other Long Term Liabilities**	**Total**
Reported March 2015	**£k**	**£k**	**£k**
• 2013/14 actual	0	178.5	178.5
• 2014/15 probable	0	178.5	178.5
Actual 2014/15 Outturn	0	178.5	178.5

The Authority does not have any loans in place and has no requirement to borrow in order to fund capital expenditure.

(vi) **External Debt Limits**

	Borrowing	**Other Long Term Liabilities**	**Total**
Reported March 2015	**£k**	**£k**	**£k**
• Authorised Limit for 2014/15	250.0	178.5	428.5
• Operational Boundary for 2014/15	0	178.5	178.5
Actual 2014/15 Outturn	0	178.5	178.5

Thus all borrowing activity in the year was within the limits set by the Authority.

(vii) **Interest Rate Exposure**

	Limits agreed March 2015 %	Actual Position at 31/03/2015 %
Borrowing		
Fixed	60 to 100	**0**
Variable	0 to 40	**0**
Investments		
Fixed	0 to 30	**0**
Variable	70 to 100	**100**

All investments are classified as variable because of their short term nature (ie less than one year).

(viii) **Maturity Structure of Borrowing**

The amount of borrowing maturing in each period as a percentage of total projected borrowing that is fixed rate.

	Lower Limit (March 2015)	Upper Limit (March 2015)	Actual at 31/03/2015
	%	%	%
Under 12 months	0	100	0
12 months & within 24 months	0	100	0
24 months & within 5 years	0	100	0
5 years and within 10 years	0	100	0
10 years and above	0	100	0

(ix) **Total Principal Sums Invested for Periods longer than 364 days**

The agreed maximum sum for investment longer than one year was 20% of estimated core funds available for investment but there were no such investments in place at 31 March 2015.

Approved Lending List

2.24 The County Council's Approved Lending List as at 11 May 2015 is attached as **Appendix A**.

2.26 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.

2.28 The key change to The Approved lending list in 2014/15 was approved by the Corporate Director, Strategic Resources, under delegated powers in November 2014. This change was to increase the investment limits for:

- Lloyds group from £75m to £85m
- RBS / Nat West from £75m to £85m
- Barclays from £65m to £75m

The justification for these increases was:

(a) Increased cash balances

(b) Improving average returns by being able to place more funds in the longer periods of up to 1 year

(c) Being prepared for future ‘cash peaks’ and further investment counterparties being suspended from our lending list due to credit rating down gradings etc.

Recommendation

2.29 That Members note the performance of the Treasury Management operation during 2014/15 and the outturn position on Prudential Indicators.

Peter Yates
Treasurer
Central Services
County Hall
Northallerton

Appendix A

Approved Lending List as At 14 May 2015

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	85.0	364 days	-	-
Natwest Bank	GBR				
Ulster Bank Ltd	GBR				
Bank of Scotland	GBR	85.0	364 days	-	-
Lloyds	GBR				
UK "Clearing Banks", other UK based banks and Building Societies					
Santander UK plc (includes Cater Allen)	GBR	40.0	6 months	-	-
Barclays Bank	GBR	75.0	6 months	-	-
HSBC	GBR	30.0	364 days		
Clydesdale Bank (trading as Yorkshire Bank)	GBR	30.0 (Shared with NAB)	Temporarily suspended	-	-
Goldman Sachs International Bank	GBR	40.0	3 months		
Nationwide Building Society	GBR	40.0	6 months	-	-
Leeds Building Society	GBR	20.0	3 months	-	-
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	364 days	-	-
BNP Paribas Fortis	FRA	20.0	6 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 14 May 2015