Item 7

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

6 June 2016

Annual Treasury Management and Prudential Indicators Outturn Report 2015/16

Report of the Treasurer

1. **Purpose**

1.1 To present the results of the Treasury Management operations of the Authority for 2015/16 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 delivered in accordance with the Collaboration Agreement between the Authority and North Yorkshire County Council. 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 2015/16 approved by the Authority on 23 March 2015.

Treasury Management Strategy 2015/16

2.5 The Authority's Treasury Management and Investment Strategy for 2015/16 was approved by the Authority on 23 March 2015. This Annual Strategy set out the Authority's approach to managing its Treasury Management activities for 2015/16.

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 2015/16 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 2015/16 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 December 2015 to 0.75%. Rates were then expected to rise along with economic recovery reaching 2.00% by March 2018.

Longer term Public Works Loan Board (PWLB) rates were forecast to rise gradually in all periods throughout the subsequent three year period. 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 2015/16 was as follows:

(a) Investment of Cash (Investment Strategy 2015/16)

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 2015/16) (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 2015/16

2.10 **Paragraph 2.7** above sets out the forecast for interest rates in 2015/16 as included in the Treasury Management Strategy approved in March 2015. The actual resulting interest position experienced during the year was as follows:

PWLB rates

The spread on shorter term period loans was around 1.0% (between 2.1% and 3.1% for a 10 year loan) and the spread on longer term loans was in the region of 0.8% (between 2.8% and 3.6% 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 seven years. Market expectations as to the timing of the start of monetary tightening started the year at early in 2016 but then moved back to around June 2017 by the end of the year.

Deposit rates remained depressed during the whole of the year, primarily due to the effects of the Funding for Lending Scheme and due to the continuing weak expectations as to when Bank Rate would start rising.

Market expectations have moved radically during the year due to many fears including concerns regarding China's economic growth; the potential destabilisation of some emerging market countries particularly exposed to the Chinese economic slowdown; and the continuation of the collapse in oil prices during 2015 together with continuing Eurozone growth uncertainties. These concerns have caused sharp market volatility in equity prices during the year with corresponding impacts on bond prices and bond yields due to safe haven flows.

The ECB had announced in January 2015 that it would undertake a full blown quantitative easing (QE) programme of purchases of Eurozone government and other bonds. This put downward pressure on Eurozone bond yields. There was then a further increase in this programme of QE in December 2015. While the anti-austerity government in Greece eventually agreed to meet EU demands, after causing major fears of a breakup of the Eurozone, there are continuing concerns that a Greek exit has only been delayed.

The American economy has continued to grow healthily on the back of resilient consumer demand. The first increase in the central rate occurred in December 2015 since when there has been a return to caution as to the speed of further increases due to concerns around the risks to world growth.

On the international scene, the Japanese economy has also suffered disappointing growth in this financial year despite a huge programme of quantitative easing, while two of the major emerging market economies, Russia and Brazil, are in recession. The situations in Ukraine, and in the Middle East with ISIS, have also contributed to volatility.

The UK elected a majority Conservative Government in May 2015, removing one potential concern but introducing another due to the promise of a referendum on the UK remaining part of the EU. The government maintained its tight fiscal policy stance but the more recent downturn in expectations for economic growth has made it more difficult to return the public sector net borrowing to a balanced annual position within the period of this parliament.

Borrowing Outturn for 2015/16

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 2015/16

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 2015/16 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 2015/16 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 2015/16	£2,210k
Interest Earned	£14.2k
Average Rate achieved 2015/16	**0.66%**

The average rate achieved by the Authority of 0.66% exceeded the average bank rate of 0.5% (by 0.16%).

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 2018 were approved by the Authority on 23 March 2015. More recently an updated set of indicators up to 31 March 2019 was approved by the Authority on 21 March 2016.

2.20 As part of this Annual Treasury Management Report for 2015/16 it is therefore appropriate to report the 2015/16 outturn position on these Prudential Indicators compared with the last updated set of indicators for the year, as approved by the Authority on 21 March 2016.

(i) **Statutory Affordable Borrowing Limit for 2015/16 required under Section 3 of the Local Government Act 2003**

	Borrowing	**Other Long Term Liabilities**	**Total**
	£k	**£k**	**£k**
Initial figure approved March 2015	250.0	178.4	428.4
Revised March 2016	250.0	178.4	428.4
Actual limit of external debt reached during 2015/16	**0**	**178.4**	**178.4**

Although the Authority had no external debt as at 31 March 2016, 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 2015	0	178.4	178.4
At 31 March 2016	**0**	**178.4**	**178.4**

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 2016	**%**
• 2014/15 actual	0
• 2015/16 probable	0
Actual 2015/16 outturn	**0**

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

Reported March 2016	£k
• 2014/15 actual	48.6
• 2015/16 probable	140.0
Actual 2015/16 outturn	**108.2**

Actual capital expenditure in 2015/16 related to rangers vehicles and estate services equipment. 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 2016	**£k**	**£k**	**£k**
• 2014/15 actual	0	178.4	178.4
• 2015/16 probable	0	178.4	178.4
Actual 2015/16 Outturn	0	178.4	178.4

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 2016	**£k**	**£k**	**£k**
• Authorised Limit for 2015/16	250.0	178.4	428.4
• Operational Boundary for 2015/16	0	178.4	178.4
Actual 2015/16 Outturn	0	178.4	178.4

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

(vii) **Interest Rate Exposure**

	Limits agreed March 2016 %	Actual Position at 31/03/2016 %
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 2016)	Upper Limit (March 2016)	Actual at 31/03/2016
	%	%	%
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 2016.

Approved Lending List

2.21 The County Council's Approved Lending List as at 1 May 2016 is attached as **Appendix A**.

2.22 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.

2.23 **Recommendation**

2.24 That Members note the performance of the Treasury Management operation during 2015/16 and the outturn position on Prudential Indicators.

Karen Iveson
Treasurer
Central Services
County Hall
Northallerton
1 May 2016

Appendix A

Approved Lending List as At 31 March 2016

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				
Bank of Scotland	GBR	85.0	3 months	-	-
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	3 months	-	-
HSBC	GBR	30.0	6 months		
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	6 months	-	-
High quality Foreign Banks					
National Australia Bank	AUS	30.0 (Shared with Clydesdale)	6 months	-	-
Commonwealth Bank of Australia	AUS	20.0	6 months		
Canadian Imperial Bank of Commerce	CAN	20.0	364 days	-	-
Deutsche Bank	DEU	20.0	Temporarily suspended	-	-
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	-	-
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 8th April 2016