

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

5 June 2017

## Annual Treasury Management and Prudential Indicators Outturn Report 2016/17

### Report of the Treasurer

#### 1. Purpose

- 1.1 To present the results of the Treasury Management operations of the Authority for 2016/17 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 2016/17 approved by the Authority on 21 March 2016.

#### Treasury Management Strategy 2016/17

- 2.5 The Authority's Treasury Management and Investment Strategy for 2016/17 was approved by the Authority on 21 March 2016. This Annual Strategy set out the Authority's approach to managing its Treasury Management activities for 2016/17.
- 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 2016/17 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 2016/17 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 around March 2017 to 0.75%. Rates were then expected to rise along with economic recovery reaching 1.75% by March 2019.

**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 2016/17 was as follows:

**(a) Investment of Cash (Investment Strategy 2016/17)**

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 2016/17) (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 2016/17**

2.10 **Paragraph 2.7** above sets out the forecast for interest rates in 2016/17 as included in the Treasury Management Strategy approved in March 2016. The actual resulting interest position experienced during the year was as follows:

**PWLB rates**

During 2016-17, PWLB rates fell from April to June and then gained fresh downward impetus after August, before staging a partial recovery through to December and then falling slightly through to the end of March. The spread on shorter term period loans was around 1.1% (between 1.4% and 2.5% for a 10 year loan) and the spread on longer term loans was in the region of 1.2% (between 1.9% and 3.1% for a 50 year loan).

## **Investment Rates**

After the EU referendum, Bank Rate was cut from 0.5% to 0.25% on 4 August and remained at that level for the rest of the year. Deposit rates continued into the start of 2016/17 at previously depressed levels but then fell during the first half of the year and then fell further after the 4 August MPC meeting resulted in a large tranche of cheap financing being made available to the banking sector by the Bank of England. Rates made a weak recovery towards the end of 2016 but then fell to fresh lows in March 2017.

## **The Economy**

The key points associated with economic activity in 2016/17 as follows:

- The UK voted to leave the EU following the referendum on 23 June;
- Donald Trump was elected President of the USA on 9 November;
- Following the outcome of the EU referendum, market expectations for the first increase in Bank Rate were pushed back from mid-2018 to late 2019;
- The Bank of England cut Bank Rate from 0.5% to 0.25% on 4 August;
- Quantitative easing restarted in August with purchases of £60bn of gilts and £10bn of corporate bonds;
- In the second half of 2016, the UK economy performed strongly with an annual growth for 2016 overall compared to 2015 of 1.8%;
- Inflation rose rapidly in the second half of 2016 due to the effects of the sharp devaluation of sterling after the referendum.

## **Borrowing Outturn for 2016/17**

- 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 2016/17**

- 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 2016/17 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 2016/17 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 2016/17	£2,757k
Interest Earned	£16k
<b>Average Rate achieved 2016/17</b>	<b>0.58%</b>

The average rate achieved by the Authority of 0.58% exceeded the average bank rate of 0.33% (by 0.25%).

- 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 2019 were approved by the Authority on 21 March 2016. More recently an updated set of indicators up to 31 March 2019 was approved by the Authority on 21 March 2017.

- 2.20 As part of this Annual Treasury Management Report for 2016/17 it is therefore appropriate to report the 2016/17 outturn position on these Prudential Indicators compared with the last updated set of indicators for the year, as approved by the Authority on 20 March 2017.

- (i) **Statutory Affordable Borrowing Limit for 2016/17 required under Section 3 of the Local Government Act 2003**

	<b>Borrowing</b>	<b>Other Long Term Liabilities</b>	<b>Total</b>
	<b>£k</b>	<b>£k</b>	<b>£k</b>
Initial figure approved March 2016	425.0	178.3	603.3
Revised March 2017	250.0	178.3	428.3
<b>Actual limit of external debt reached during 2016/17</b>	<b>0.0</b>	<b>178.3</b>	<b>178.3</b>

Although the Authority had no external debt as at 31 March 2017, 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**

	<b>Borrowing</b>	<b>Other Long Term Liabilities</b>	<b>Total</b>
	<b>£k</b>	<b>£k</b>	<b>£k</b>
At 31 March 2016	0	178.4	178.4
<b>At 31 March 2017</b>	<b>0</b>	<b>178.3</b>	<b>178.3</b>

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 2017	%
• 2015/16 actual	0
• 2016/17 probable	0
<b>Actual 2016/17 outturn</b>	<b>0</b>

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

Reported March 2017	£k
• 2015/16 actual	108.2
• 2016/17 probable	250.0
<b>Actual 2016/17 outturn</b>	<b>303.7</b>

Actual capital expenditure in 2016/17 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)**

	<b>Borrowing</b>	<b>Other Long Term Liabilities</b>	<b>Total</b>
Reported March 2017	<b>£k</b>	<b>£k</b>	<b>£k</b>
• 2015/16 actual	0	178.4	178.4
• 2016/17 probable	0	178.3	178.3
<b>Actual 2016/17 Outturn</b>	0	178.3	178.3

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**

	<b>Borrowing</b>	<b>Other Long Term Liabilities</b>	<b>Total</b>
Reported March 2017	<b>£k</b>	<b>£k</b>	<b>£k</b>
• Authorised Limit for 2016/17	250.0	178.3	428.3
• Operational Boundary for 2016/17	0	178.3	178.3
<b>Actual 2016/17 Outturn</b>	0	178.3	178.3

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

(vii) **Interest Rate Exposure**

	<b>Limits agreed March 2017</b>	<b>Actual Position at 31/03/2017</b>
	<b>%</b>	<b>%</b>
Borrowing		
Fixed	60 to 100	<b>0</b>
Variable	0 to 40	<b>0</b>
Investments		
Fixed	0 to 30	<b>0</b>
Variable	70 to 100	<b>100</b>

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.			
	<b>Lower Limit</b>	<b>Upper Limit</b>	<b>Actual at</b>
	<b>(March 2017)</b>		<b>31/03/2017</b>
	%	%	%
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 2017.

**Approved Lending List**

2.24 The County Council's Approved Lending List as at 1 May 2017 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.

**2.27 Recommendation**

2.28 That Members note the performance of the Treasury Management operation during 2016/17 and the outturn position on Prudential Indicators.

Karen Iveson  
Treasurer  
Central Services  
County Hall  
Northallerton  
3 May 2017

## Approved Lending List As At 31 March 2017

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 *
<b>UK "Nationalised" banks / UK banks with UK Central Government involvement</b>					
Royal Bank of Scotland	GBR	85.0	364 days	-	-
Natwest Bank	GBR				
Bank of Scotland	GBR	85.0	6 months	-	-
Lloyds	GBR				
<b>UK "Clearing Banks", other UK based banks and Building Societies</b>					
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	6 months		
Nationwide Building Society	GBR	40.0	6 months	-	-
Leeds Building Society	GBR	20.0	6 months		
Standard Chartered Bank	GBR	40.0	6 months	-	-
<b>High quality Foreign Banks</b>					
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	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	-	-
<b>Local Authorities</b>					
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
<b>Other Deposit Takers</b>					
Money Market Funds		20.0	364 days	5.0	2 years
UK Debt Management Account		100.0	364 days	5.0	2 years