Item 11

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

16 November 2017

Mid-year Treasury Management Review
Report of the Treasurer

1. **Purpose of the Report**

1.1 To present details of the Authority's 2017/18 Treasury Management activity up to 30th September 2017, together with a mid-year review of the Strategy and a Prudential Indicators update.

2. **Background**

2.1 Treasury Management in Local Government is governed by the CIPFA Code of Practice on Treasury Management in the Public Services and in this context is the management of the Authority's cash flows, its banking and capital market transactions, the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks. The Authority has adopted the Code and complies with its requirements.

2.2 The CIPFA Code of Practice for Treasury Management requires the Authority to present a mid-year review of Treasury Management activity and other current policy issues.

3. **Economic Update**

3.1 The Council's treasury advisors Capita Asset Services – Treasury Solutions (Capita) summarised the key points associated with economic activity up to 30th September 2017**:**

- The economy struggled to pick up much pace;
- The labour market tightened further, but underlying wage pressures remained weak;
- Headline inflation picked up further;
- There was an increase in MPC Members voting to raise interest rates;
- The public finances performed better than expected;
- Brexit negotiations did not progress significantly.

4. **Interest Rate Forecasts**

4.1 The current interest rate forecasts (last update 6 October 2017) of Capita – Treasury Solutions are as follows:

Date	*Bank rate*	*5 year PWLB**	*10 year PWLB**	*25 year PWLB**	*50 year PWLB**
	%	%	%	%	%
Current rates	0.25	1.60	2.20	2.80	2.50
Dec 2017	0.25	1.50	2.20	2.90	2.70
Mar 2018	0.25	1.60	2.30	2.90	2.70
Jun 2018	0.25	1.70	2.30	3.00	2.80
Sept 2018	0.25	1.70	2.40	3.00	2.80
Dec 2018	0.25	1.80	2.40	3.10	2.90

* Net of certainty rate 0.2% discount

4.2 The last review of interest rate forecasts on the 9th August 2017 gave no change in MPC policy. However, the MPC meeting on 14th September revealed an increase in Members voting to raise the Bank Rate. It was therefore possible that there would be an increase to 0.50% at the November MPC meeting.

4.3 Following market speculation, the Bank of England announced an increase in bank rate from 0.25% to 0.50% at its recent meeting on 2nd November. The timing of any future bank rate rises will be considered following the rate rise and an updated interest rate forecast will issued in the coming weeks. It is anticipated that any further rises will continue to be driven by the pace of growth in the economy, level of inflationary pressures and average earnings across the economy. In terms of borrowing costs, PWLB rates fell initially following the Bank of England's announcement as inflation is expected to be around the 2% target over the medium-term. The forecast remains for PWLB rates increase slowly over the next two years.

5. Annual Treasury Management and Investment Strategy 2017/18

5.1 The Annual Treasury Management and Investment Strategy for 2017/18 sets out the Authority's approach to managing its Treasury Management activities for the year ahead.

5.2 The Authority's investment priorities are the security of capital and liquidity of investments. 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 appropriate to keep investments relatively short term to cover cash flow needs, but also to seek out any value available in significantly higher rates for periods up to 12 months with highly credit rated financial institutions.

5.3 The Treasury Management investment activities function is undertaken on behalf of the Authority by North Yorkshire County Council (NYCC). Under the terms of this agreement, NYCC pools the monies it invests on behalf of the Authority with its own funds and those of other organisations. In order to facilitate this pooling, the Council's Annual Investment Strategy and Lending List has been aligned to that of NYCC.

5.4 The approved limits within the Annual Investment Strategy were not breached during the first six months of the year.

5.5 Investment activity for the period up to the 30 September 2017 was as follows:

- Average Daily Balance: £3,205.5k
- Interest Earned: £7.6k
- Average Interest Rate: 0.48%

While interest rates have remained low throughout 2017/18, cash balances have continued at relatively high levels. The current interest earned is slightly below the annual budget if £20k.

5.6 The average return to 30 September 2017 of 0.48% compares with the average benchmark returns as follows:

- 7 day 0.11%
- 1 month 0.13%
- 3 months 0.18%
- 6 months 0.32%
- 12 months 0.53%

5.7 It is also a key requirement of the CIPFA Code of Practice that annual Treasury Management Strategies should be kept under constant review throughout the year and reported to Members as appropriate. Although there continues to be uncertainty and volatility in the financial and banking market, both globally and in the UK, **it is considered that the Strategy approved in March 2017 is still fit for purpose in the current economic climate**. No changes are therefore considered necessary to the Strategy at this stage.

6. **Approved Lending List**

6.1 The Approved Lending List as at 30 September 2017 is attached as **Appendix A.**

7. **Prudential Indicators**

7.1 A list of the Authority's approved Prudential Indicators are shown in **Appendix B**. Officers can confirm that the Prudential Indicators were not breached.

8. **Other Treasury Management Development and Issues**

8.1 Investment rates available continue to remain at very low levels, as a result of historically low bank rates. Alternative options are continually monitored and reviewed in order to ensure investment returns are maximised, while maintaining the appropriate level of security and liquidity of funds. In addition, a report elsewhere on today's agenda considers an alternative strategic approach to managing cash resources in order to maximise the use of available funds.

9. **Recommendation**

9.1 That: the Executive

(i) notes the position on the Authority's Treasury Management activities during the first half of 2017/18.

(ii) Approves the revised Prudential Indicators for the period 2017/18 to 2019/20, as set out in **Appendix B**.

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Appendix A

Approved Lending list as at 30 September 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 *
UK "Nationalised" banks / UK banks with UK Central Government involvement					
Royal Bank of Scotland	GBR	85.0	364 days	-	-
Natwest Bank	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	-	-
Bank of Scotland	GBR	75.0	6 months	-	-
Lloyds	GBR				
HSBC	GBR	30.0	364 days		
Goldman Sachs International Bank	GBR	40.0	6 months		
Nationwide Building Society	GBR	40.0	6 months	-	-
Leeds Building Society	GBR	20.0	3 months		
Standard Chartered Bank	GBR	40.0	6 months	-	-
High quality Foreign Banks					
National Australia Bank	AUS	20.0	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	-	-
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

Appendix B

Prudential Indicators Update – For 2017/18 TO 2019/20

The Prudential Indicators set in March 2017 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.

Following the introduction of the International Financial Reporting Standards (IFRS), finance leases (those 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 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.

1. Capital Expenditure Plans (Actual and Estimated)

Capital expenditure for 2016/17 was £294k. The increase in expenditure from the forecast reported in March 2017 (£250k) relates to additional expenditure on equipment.

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

Year	Approved March 2017		Updated November 2017	
	Basis	**£000**	**Basis**	**£000**
2015/16	actual	108.2	actual	108.2
2016/17	probable	250.0	actual	294.0
2017/18	estimate	305.0	estimate	180.0
2018/19	estimate	360.0	estimate	410.0
2019/20	estimate	910.0	estimate	860.0

2. 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.

Year	Approved March 2017		Updated November 2017	
	Basis	**%**	**Basis**	**%**
2015/16	actual	0.00	actual	0.00
2016/17	probable	0.00	actual	0.00
2017/18	estimate	0.00	estimate	0.00
2018/19	estimate	0.28	estimate	0.00
2019/20	estimate	0.11	estimate	0.00

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 March 2017				Updated November 2017			
	Basis	Borrow £000	LT Liabilities £000	Total £000	Basis	Borrow £000	LT Liabilities £000	Total £000
2015/16	actual	0.0	178.4	178.4	actual	0.0	178.4	178.4
2016/17	probable	0.0	178.3	178.3	actual	0.0	178.3	178.3
2017/18	estimate	257.0	178.2	435.2	estimate	0.0	178.2	178.2
2018/19	estimate	401.7	178.1	589.8	estimate	0.0	178.1	178.1
2019/20	estimate	1,213.2	177.9	1,391.1	estimate	140.0	177.9	317.9

4. **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 Treasurer has delegated authority to make in year changes to the operational boundary.

Year	Approved March 2017			Updated November 2017		
	Borrow £000	LT Liabilities £000	Total £000	Borrow £000	LT Liabilities £000	Total £000
2016/17	0.0	178.3	178.3	0.0	178.3	178.3
2017/18	260.0	178.2	438.2	0.0	178.2	178.2
2018/19	421.7	178.1	599.8	0.0	178.1	178.1
2019/20	1,220.2	177.9	1,398.1	140.0	177.9	317.9

5. **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 March 2017			Updated November 2017		
	Borrow £000	LT Liabilities £000	Total £000	Borrow £000	LT Liabilities £000	Total £000
2016/17	250.0	178.3	428.3	250.0	178.3	428.3
2017/18	510.0	178.2	688.2	250.0	178.2	428.2
2018/19	671.7	178.1	849.8	250.0	178.1	428.1
2019/20	1,471.2	177.9	1,649.1	390.0	177.9	567.9

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 **£428.2k** will act as this limit for 2017/18 and reaffirms the limit set in March 2017.

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 2017 and it is expected that this will be the position as at 31 March 2018. This indicator remains unchanged from the original position reported 20 March 2017.

7. **Interest Rate Exposures**

	%age of outstanding principal sums
Borrowing	
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	160 to 300
Limits on variable interest rate exposures	-60 to -200

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%

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.