

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

24 May 2018

### Annual Treasury Management and Prudential Indicators Outturn Report 2017/18 Report of the Treasurer

#### 1. Purpose of the Report

- 1.1 To present the results of the Treasury Management operations of the Authority for 2017/18 and the outturn position on Prudential Indicators.

#### 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 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 2017/18 approved by the Authority on 20 March 2017.

#### 3. The Economy in 2017/18

- 3.1 The Council's treasury advisors Link Asset Services – Treasury Solutions <https://www.linkassetsservices.com/what-we-do/treasury> summarised the key points associated with economic activity in 2017/18 as follows:

- The major UK landmark event of the year was the inconclusive result of the general election on 8 June. However, this had relatively little impact on financial markets;
- Brexit negotiations have been a focus of much attention and concern during the year but so far, there has been little significant hold up in progress;
- UK growth in 2017 was weak in the first half of the year, although it did pick up modestly in the second half of 2017;
- There was a sharp increase in inflation caused by the devaluation of sterling after the EU referendum;
- As expected the MPC raised Bank Rate from 0.25% to 0.50% on 2 November;
- Market expectations for increases in Bank Rate shifted during the second half of 2017/18 and resulted in investment rates up to 12 months increasing sharply;
- The FTSE 100 hit a new peak in early 2018 before there was a sharp selloff.

#### 4. Treasury Management Strategy 2017/18

- 4.1 The expectation for interest rates incorporated within the Annual Treasury Management Strategy for 2017/18 were as follows:

**Bank Base Rate** was expected to remain at 0.25% until a first increase around June 2019 to 0.50%. Rates were then expected to rise along with economic recovery reaching 0.75% by December 2019.

**PWLB Borrowing rates** were forecast to rise gradually throughout the next three years in all periods. Variable and short term rates were expected to be the cheaper form of borrowing over the period.

4.2 Based on the above, the Strategy adopted by the Authority for 2017/18 was as follows:

**(a) Investment Strategy 2017/18**

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.

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 and within the constraints of the approved Annual Investment Strategy (AIS).

**(b) Borrowing Strategy 2017/18**

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.

**5. Borrowing and Investment Rates in 2017/18**

5.1 The movement in relevant UK market interest rates for the year was as follows:

**Bank Rate**

From 1 April 2017 to November 2017      0.25%  
 From 2 November 2017 to 31 March 2018    0.50%

**PWLB Rate**

Item	Range during Year %	Start of Year %	End of Year %	Average In Year %
Fixed Interest Maturity				
1 year	0.80 – 1.51	0.85	1.47	1.11
5 years	1.14 – 2.01	1.25	1.85	1.50
10 years	1.78 – 2.53	1.93	2.23	2.08
25 years	2.52 – 2.93	2.62	2.57	2.69
50 years	2.25 – 2.64	2.37	2.29	2.41

## Investment Rates

Deposit rates continued into the start of 2017/18 at previously depressed levels but then slowly increased after the 2 November.

<i>Item</i>	<i>Range during Year</i>	<i>Start of Year</i>	<i>End of Year</i>	<i>Average during Year</i>
	%	%	%	%
7 day LIBID	0.10 – 1.37	0.11	0.36	0.22
1 month	0.13 – 0.39	0.13	0.39	0.23
3 month	0.14 – 0.59	0.21	0.59	0.29
6 month	0.27 – 0.70	0.37	0.70	0.61
1 year	0.46 – 0.88	0.59	0.88	0.61

## 6. Investment and Borrowing Outturn 2017/18

### Investment Outturn 2017/18

- 6.1 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.
- 6.2 The only financial investments made by the Authority in 2017/18 were the placing of funds on the money markets/other local authorities with institutions included in the Approved Lending List. The results of the Authority's investment activities for 2017/18 were as follows

Average Daily Balance	£3,230k
Interest Earned	£16k
<b>Average Rate Achieved 2017/18</b>	<b>0.49%</b>

### Borrowing Outturns 2017/18

- 6.3 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.

## 7. Approved Lending List

- 7.1 The Approved Lending List as at 31 March 2018 is attached as **Appendix A**.

## 8. Prudential Indicators

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

## 9. Recommendations

- 9.1 That Members note the performance of the Treasury Management operation during 2017/18 and the outturn position on Prudential Indicators.

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## Appendix A

### Approved Lending List As At 31 March 2018

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>					
<b>UK "Nationalised" banks / UK banks with UK Central</b>					
Royal Bank of Scotland	GBR	75.0	364 days	-	-
Natwest Bank	GBR				
<b>UK "Clearing Banks", other UK based banks and</b>					
Santander UK plc (includes Cater Allen)	GBR	40.0	6 months	-	-
Barclays Bank	GBR	75.0	6 months	-	-
Bank of Scotland	GBR	60.0	6 months	-	-
Lloyds	GBR				
			364 days		
HSBC	GBR	30.0			
Goldman Sachs International Bank	GBR	40.0	6 months		
Standard Chartered Bank	GBR	40.0	6 months	-	-
Nationwide Building Society	GBR	40.0	6 months	-	-
Leeds Building Society	GBR	20.0	3 months		
<b>High quality Foreign Banks</b>					
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	-	-
<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
UK Debt Management Account		100.0	364 days	5.0	2 years

**Prudential Indicators Update 2017/18**

The Authority is required to comply with the CIPFA Prudential Code and set Prudential Indicators for the next three years to ensure that capital investment plans are affordable, prudent and sustainable.

During the financial year the Authority operated within the Treasury Limits and Prudential Indicators as set out in the Treasury Management Policy Statement and Annual Treasury Management Strategy for 2017/18.

As part of this Annual Treasury Management Report for 2017/18 it is therefore appropriate to report the 2017/18 outturn position on these Prudential Indicators compared with the last updated set of indicators:

1. **Statutory Affordable Borrowing Limit for 2017/18**

	<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 2017	510.0	178.2	688.2
Revised March 2018	250.0	178.2	428.2
<b>Actual limit reached during 2017/18</b>	<b>0</b>	<b>178.2</b>	<b>178.2</b>

2. **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 2017	0	178.3	178.3
<b>At 31 March 2018</b>	<b>0</b>	<b>178.2</b>	<b>178.2</b>

3. **Ratio of Capital Financing Costs to Net Revenue Budget**

Reported March 2018	<b>%</b>
• 2016/17 actual	0
• 2017/18 probable	0
<b>Actual 2017/18 outturn</b>	<b>0</b>

#### 4. Capital Expenditure Actual and Forecasts

Reported March 2018	£k
<ul style="list-style-type: none"> <li>• 2016/17 actual</li> <li>• 2017/18 probable</li> </ul>	294.0 180.0
<b>Actual 2017/18 outturn</b>	<b>199.4</b>

#### 5. Capital Financing Requirement as at 31 March 2018

	Borrowing	Other Long Term Liabilities	Total
Reported March 2018	£k	£k	£k
<ul style="list-style-type: none"> <li>• 2016/17 actual</li> <li>• 2017/18 probable</li> </ul>	0 0	178.2 178.2	178.2 178.2
<b>Actual 2017/18 Outturn</b>	<b>0</b>	<b>178.2</b>	<b>178.2</b>

#### 6. External Debt Limits

	Borrowing	Other Long Term Liabilities	Total
Reported March 2018	£k	£k	£k
<ul style="list-style-type: none"> <li>• Authorised Limit for 2017/18</li> <li>• Operational Boundary for 2017/18</li> </ul>	250.0 0	178.2 178.2	428.2 178.2
<b>Actual 2017/18 Outturn</b>	<b>0</b>	<b>178.2</b>	<b>178.2</b>

#### 7. Interest Rate Exposures

	Limits agreed March 2017	Actual Position at 31/03/2018
	%	%
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>

8. **Maturity Structure of Borrowing**

Upper and lower limits for the maturity structure of borrowings are set to allow maximum flexibility -

<b>Period</b>	<b>Lower Limit</b>	<b>Upper Limit</b>
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**

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 2018.