

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

**19 November 2018**

**Mid-year Treasury Management Review**

**Report of the Treasurer**

**1. Purpose of the Report**

- 1.1 To present details of the Authority's 2018/19 Treasury Management activity up to 30 September 2018, 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 Link Asset Services summarised the key points associated with economic activity up to 30 September 2018:

- The economy showed some signs of gathering momentum after the slowdown in early 2018;
- Employment growth rose putting some pressure on wage growth;
- Consumer price inflation rose unexpectedly;
- The MPC raised interest rates in August to 0.75%;
- UK equities underperformed;
- Brexit negotiations remained at an impasse.

**4. Interest Rate Forecasts**

- 4.1 The current interest rate forecasts (last update 3 October 2018) of Link Asset Services are as follows:

<i>Date</i>	<i>Bank rate</i>	<i>5 year PWLB*</i>	<i>10 year PWLB*</i>	<i>25 year PWLB*</i>	<i>50 year PWLB*</i>
Current rates	% 0.75	% 2.00	% 2.40	% 2.80	% 2.60
Dec 2018	0.75	2.00	2.50	2.90	2.70
Mar 2019	0.75	2.10	2.50	3.00	2.80
Jun 2019	0.75	2.20	2.60	3.10	2.90
Sept 2019	1.00	2.20	2.70	3.10	2.90
Dec 2019	1.00	2.30	2.70	3.20	3.00

\* Net of certainty rate 0.2% discount

4.2 The flow of generally positive economic statistics from the first half of 2018 meant that it came as no surprise that the MPC came to a decision on 2 August to increase in Bank Rate to 0.75%. However, the MPC emphasised again, that future Bank Rate increases would be gradual and would rise to a much lower rate than before the 2008 financial crash. It is not anticipated that the MPC will increase Bank Rate again ahead of the Brexit deadline in March 2019. It is currently expected that the MPC is likely to wait until August 2019 before the next increase, to be followed by further increases of 0.25% in May and November 2020 to reach 1.5%. However, the cautious pace of even these limited increases is dependent on a reasonably orderly Brexit.

4.3 The overall balance of risks to economic recovery in the UK is probably currently to the downside due to the uncertainties around Brexit; however, given those uncertainties, there is a wide diversity of possible outcomes for the strength of economic growth and inflation, and the corresponding speed with which Bank Rate could go up.

## 5. **Annual Treasury Management and Investment Strategy 2018/19**

5.1 The Annual Treasury Management and Investment Strategy for 2018/19 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 Authority'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 2018 was as follows:

- Average Daily Balance: £2,921k
- Interest Earned: £11k

- Average Interest Rate: 0.69%

While interest rates have remained low throughout 2018/19, cash balances have continued at relatively high levels. The current interest earned is on target for the annual budget of £20k.

5.6 The average return to 30 September 2018 of 0.69% compares with the average benchmark returns as follows:

- 7 day 0.44%
- 1 month 0.47%
- 3 months 0.61%
- 6 months 0.71%
- 12 months 0.94%

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 2018 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 2018 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.

## 9. **Recommendations**

9.1 That the Committee

- (i) notes the position on the Authority's Treasury Management activities during the first half of 2018/19.
- (ii) Approves the revised Prudential Indicators for the period 2018/19 to 2020/21, as set out in **Appendix B.**

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## Approved Lending List As At 30 September 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>					
Royal Bank of Scotland PLC (RFB)	GBR	75.0	364 days	-	-
National Westminster Bank PLC (RFB)	GBR				
<b>UK "Clearing Banks", other UK based banks and Building Societies</b>					
Santander UK PLC (includes Cater Allen)	GBR	60.0	6 months	-	-
Barclays Bank PLC (NRFB)	GBR	75.0	6 months	-	-
Barclays Bank UK PLC (RFB)	GBR				
Bank of Scotland PLC (RFB)	GBR	60.0	364 days	-	-
Lloyds Bank PLC (RFB)	GBR		6 months		
Lloyds Bank Corporate Markets PLC (NRFB)	GBR	30.0	364 days	-	-
HSBC Bank PLC (NRFB)	GBR				
HSBC UK Bank PLC (RFB)	GBR	60.0	6 months		
Goldman Sachs International Bank	GBR	30.0	6 months		
Sumitomo Mitsui	GBR	60.0	6 months		
Standard Chartered Bank	GBR	40.0	6 months	-	-
Nationwide Building Society	GBR	20.0	3 months	-	-
Leeds Building Society	GBR				
<b>High quality Foreign Banks</b>					
National Australia Bank	AUS	30.0	364 days	-	-
Commonwealth Bank of Australia	AUS	30.0	364 days		
Toronto-Dominion Bank	CAN	30.0	364 days		
Credit Industriel et Commercial	FRA	30.0	6 months	-	-
Landesbank Hessen-Thüringen Girozentrale (Helaba)	GER	30.0	364 days		
DBS (Singapore)	SING	30.0	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

\* Based on 2 August 2018

### Prudential Indicators Update – For 2018/19 To 2020/21

The Prudential Indicators set in March 2018 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 2017/18 was £199k. The increase in expenditure from the forecast reported in March 2018 (£180k) 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 2018		Updated November 2018	
	Basis	£000	Basis	£000
2016/17	actual	294.0	actual	294.0
2017/18	probable	180.0	actual	199.0
2018/19	estimate	410.0	estimate	-
2019/20	estimate	860.0	estimate	-
2020/21	estimate	555.0	estimate	-

#### 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 2018		Updated November 2018	
	Basis	%	Basis	%
2016/17	actual	0.00	actual	0.00
2017/18	probable	0.00	actual	0.00
2018/19	estimate	0.00	estimate	-
2019/20	estimate	0.00	estimate	-
2020/21	estimate	0.00	estimate	-

### 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	Basis	Approved March 2018			Updated November 2018			
		Borrow £000	LT Liabilities £000	Total £000	Basis	Borrow £000	LT Liabilities £000	Total £000
2016/17	actual	0.0	178.3	178.3	actual	0.0	178.3	178.3
2017/18	probable	0.0	178.2	178.2	actual	0.0	178.1	178.1
2018/19	estimate	0.0	178.1	178.1	estimate	-	-	-
2019/20	estimate	140.0	177.9	317.9	estimate	-	-	-
2020/21	estimate	640.0	177.7	817.7	estimate	-	-	-

### 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 2018			Updated November 2018		
	Borrow £000	LT Liabilities £000	Total £000	Borrow £000	LT Liabilities £000	Total £000
2017/18	0.0	178.2	178.2	0.0	178.1	178.1
2018/19	0.0	178.1	178.1	-	-	-
2019/20	140.0	177.9	317.9	-	-	-
2020/21	640.0	177.7	817.7	-	-	-

## 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 2018			Updated November 2018		
	Borrow £000	LT Liabilities £000	Total £000	Borrow £000	LT Liabilities £000	Total £000
2017/18	250.0	178.2	428.2	250.0	178.1	428.1
2018/19	250.0	178.1	428.1	-	-	-
2019/20	390.0	177.9	567.9	-	-	-
2020/21	890.0	177.7	1,067.7	-	-	-

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 **£428.1k** will act as this limit for 2018/19 and reaffirms the limit set in March 2018.

## 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 2018 and it is expected that this will be the position as at 31 March 2019. This indicator remains unchanged from the original position reported 20 March 2018.

## 7. 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%

8. **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.
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