

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

22 June 2020

Annual Treasury Management and Prudential Indicators Outturn Report 2019/20

Report of the Chief Financial Officer

1. Purpose of the Report

- 1.1 To present the results of the Treasury Management operations of the Authority for 2019/20 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 2019/20 approved by the Authority in March 2019.

3. The Economy in 2019/20

- 3.1 The Authority's treasury advisors Link Asset Services – Treasury Solutions (Link) summarised the key points associated with economic activity in 2019/20 as follows:
- the focus in the House of Commons was to agree a way forward for the UK over Brexit;
 -
 - the general election in December, which gave the Conservative Party an overall majority, enabled the UK to leave the EU on 31 January 2020;
 -
 - the uncertainties around Brexit, resulted in the MPC maintaining Bank Rate at 0.75% until March 2020 when two emergency cuts in Bank Rate from 0.75% to 0.25% and then to 0.10% were made as a result of the coronavirus outbreak. These cuts were accompanied by an increase in quantitative easing (QE), essentially the purchases of gilts (mainly) by the Bank of England of £200bn, and
 -
 - the Government introduced various schemes to subsidise both employed and self-employed jobs while the country is locked down due to the coronavirus outbreak. It also put in place other measures to help businesses access loans from their banks, (with the Government providing guarantees to the banks against losses) and grants.

4. **Treasury Management Strategy 2019/20**

4.1 The expectation for interest rates incorporated within the Annual Treasury Management Strategy for 2019/20 were as follows:

Bank Base Rate was expected to rise from 0.75% to 1.00%. It was not expected that Bank Rate would increase again in 2019/20 as a result of the major uncertainty surrounding Brexit.

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 2019/20 was as follows:

(a) Investment Strategy 2019/20

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 2019/20

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. However, it was anticipated unlikely that the Authority would undertake borrowing in year.

5. **Borrowing and Investment Rates in 2019/20**

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

Bank Rate

From 1 April 2019 to 10 March 2020	0.75%
From 11 March 2020 to 18 March 2020	0.25%
From 19 March 2020 to 31 March 2020	0.10%

PWLB Rate

Item	Range during Year %	Start of Year %	End of Year %	Average n Year %
Fixed Interest Maturity				
1 year	1.17 – 2.47	1.46	1.90	1.70
5 years	0.99 – 2.48	1.55	1.96	1.98
10 years	1.15 – 2.79	1.88	2.17	2.23
25 years	1.73 – 3.25	2.41	2.65	2.76
50 years	1.57 – 3.05	2.24	2.38	3.60

The PWLB rates in the above table reflect the PPWLB 0.2% discount rate.

Investment Rates

Deposit rates continued into the start of 2019/20 at previously depressed levels but then fell sharply following the cut to base rate in March 2020.

<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	0.00 – 0.58	0.56	0.00	0.53
1 month	0.11 – 0.61	0.60	0.12	0.56
3 month	0.26 – 0.72	0.72	0.47	0.63
6 month	0.31 – 0.83	0.83	0.60	0.70
1 year	0.39 – 0.98	0.94	0.74	0.80

6. Investment and Borrowing Outturn 2019/20

Investment Outturn 2019/20

- 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 Chief Financial Officer.
- 6.2 The only financial investments made by the Authority in 2019/20 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 2019/20 were as follows:

Average Daily Balance	£3,654k
Interest Earned	£33k
Average Rate Achieved 2018/19	0.91%

The Interest Earned exceeds the £30k budgeted for in 2019/20.

Borrowing Outturns 2019/20

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 2020 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 2019/20 and the outturn position on Prudential Indicators.

Contact Officer
Peter Williams
Chief Financial Officer (S151)

Approved Lending List as at 31 March 2020

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 PLC (RFB)	GBR	75.0	365 days	-	-
National Westminster Bank PLC (RFB)	GBR				
UK "Clearing Banks", other UK based banks and Building Societies					
Santander UK PLC (includes Cater Allen)	GBR	60.0	6 months	-	-
Barclays Bank PLC (NRFB)	GBR	75.0	3 months	-	-
Barclays Bank UK PLC (RFB)	GBR		6 months		
Bank of Scotland PLC (RFB)	GBR	60.0	365 days	-	-
Lloyds Bank PLC (RFB)	GBR		6 months		
Lloyds Bank Corporate Markets PLC (NRFB)	GBR				
HSBC Bank PLC (NRFB)	GBR	30.0	365 days	-	-
HSBC UK Bank PLC (RFB)	GBR				
Goldman Sachs International Bank	GBR	60.0	3 months	-	-
Sumitomo Mitsui	GBR	30.0	6 months	-	-
Standard Chartered Bank	GBR	60.0	6 months	-	-
Handelsbanken	GBR	40.0	365 days	-	-
Nationwide Building Society	GBR	40.0	6 months	-	-
Leeds Building Society	GBR	20.0	3 months	-	-
High Quality Foreign Banks					
National Australia Bank	AUS	30.0	365 days	-	-
Commonwealth Bank of Australia	AUS	30.0	365 days	-	-
Toronto-Dominion Bank	CAN	30.0	365 days	-	-
Credit Industriel et Commercial	FRA	30.0	6 months	-	-
Landesbank Hessen-Thuringen Girozentrale (Helaba)	GER	30.0	365 days	-	-
DBS (Singapore)	SING	30.0	365 days	-	-
Local Authorities					
County / Unitary / Metropolitan / District Councils		20.0	365 days	5.0	2 years
Police / Fire Authorities		20.0	365 days	5.0	2 years
National Park Authorities		20.0	365 days	5.0	2 years
Other Deposit Takers					
Money Market Funds		20.0	365 days	5.0	2 years
Property Funds		5.0	365 days	5.0	10 years
UK Debt Management Account		100.0	365 days	5.0	2 years

Changes to Approved Lending List 1 January 2020 to 31 March 2020

Amendments to Investment Limits/Terms

Organisation	Original Investment Limit / Term	Date Amended	Revised Investment Limit / Term	Reason for Amendment
Amendments made to Investment Limits				
None				
Amendments made to Investment Terms				
Barclays Bank PLC (NRFB) Goldman Sachs International Bank	6 Months	27 Mar 20	3 Months	Uncertainties in the markets due to Covid19 Pandemic
Temporary Suspensions for Lending List				
None				

The above shows changes to the Lending List as at 31 March 2020 compared to 31 December 2019. It should be noted, however, that changes can be made on a daily basis in reaction to market sentiment, with maximum investment durations being adjusted accordingly.

Prudential Indicators Update 2019/20

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 2019/20.

As part of this Annual Treasury Management Report for 2019/20 it is therefore appropriate to report the 2019/20 outturn position on these Prudential Indicators compared with the last updated set of indicators, reported as part of the Authority's Treasury Management Strategy for 2020/21 presented on 23/03/20:

1. Statutory Affordable Borrowing Limit for 2019/20

	Borrowing	Other Long Term Liabilities	Total
	£k	£k	£k
Initial figure approved March 2019	250.0	177.9	427.9
Actual limit reached during 2019/20	0	177.9	177.9

2. Actual External Debt

	Borrowing	Other Long Term Liabilities	Total
	£k	£k	£k
At 31 March 2019	0	178.1	178.1
At 31 March 2020	0	177.9	177.9

3. Ratio of Capital Financing Costs to Net Revenue Budget

Reported March 2020	%
• 2018/19 actual	0
• 2019/20 probable	0
Actual 2019/20 outturn	0

4. Capital Expenditure Actual and Forecasts

Reported March 2020	£k
• 2018/19 actual	485.2
• 2019/20 probable	1,360.0
Actual 2019/20 outturn	1,282.8

5. Capital Financing Requirement as at 31 March 2020

	Borrowing	Other Long Term Liabilities	Total
Reported March 2020	£k	£k	£k
• 2018/19 actual	0	178.1	178.1
• 2019/20 probable	0	177.9	177.9
Actual 2019/20 Outturn	0	177.9	177.9

6. External Debt Limits

	Borrowing	Other Long Term Liabilities	Total
Reported March 2020	£k	£k	£k
• Authorised Limit for 2019/20	250.0	179.9	427.9
• Operational Boundary for 2019/20	0	177.9	177.9
Actual 2019/20 Outturn	0	177.9	177.9

7. Interest Rate Exposures

	Limits agreed March 2019	Actual Position at 31/03/2020
	%	%
Borrowing		
Fixed	60 to 100	0
Variable	0 to 40	0
Investments		
Fixed	0 to 30	0
Variable	70 to 100	100

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

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 2020.