

Committee: AUDIT AND REVIEW

Date: 9 November 2021

**Report: MID-YEAR TREASURY MANAGEMENT REVIEW:
 REPORT OF THE TREASURER**

Purpose of the report

1. To present details of the Authority's 2021/22 Treasury Management activity up to 30 September 2021, together with a mid-year review of the Treasury Management Strategy and a 'Prudential Indicators' update.

RECOMMENDATION

2. That Members note:
 - (i) the position on the Authority's 2021/22 investment (Treasury Management) activities up to 30 September 2021.
 - (ii) the continued applicability of the Prudential Indicators for the period 2021/22 to 2023/24, as agreed on 30 March 2021.

Strategic Planning Framework

3. The information and recommendations contained in this report are consistent with the Authority's statutory purposes and its approved strategic planning framework:
 - ***Corporate Plan objectives: Objective 35: Plan and manage the Authority's work so as to make the most effective use of our resources.***

Background

4. 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.
5. Members will be aware that day to day investment activity is undertaken on behalf of the Authority by North Yorkshire County Council (NYCC) under contract.
6. The process of Treasury Management in the Public Services is regulated by the **CIPFA Code of Practice on Treasury Management 2009**. The Authority must also comply with the **CIPFA Prudential Code for Capital Finance in Local Authorities**.

Review of the Annual Treasury Management and Investment Strategy for 2021/22

7. The Authority's Treasury Management and Investment Strategy (approved on 30 March 2021) set out the Authority's approach to managing its Treasury Management activities for the financial year to 31 March 2022.
8. The CIPFA Code of Practice for Treasury Management (2009) requires that Annual Treasury Management Strategies are kept under constant review and reported to Members as appropriate. There is a requirement for a mid-year review as a minimum.
9. It is considered at this time that the Strategy approved in March 2021 remains fit for purpose. Whilst there are considerable financial uncertainties in the future, including in relation to the forthcoming Comprehensive Spending Review and its impact on the National Parks Grant settlement, the approach adopted in this strategy is uncomplicated and risk averse: we aim to make a reasonable interest-related return on our cash holdings, and have no plans to incur capital borrowing.

Investment Activity

10. Under the contractual arrangements with NYCC for the investment of cash balances the Authority adopts the investment strategy adopted by the NYCC. The net return achieved is closely monitored by the Treasurer.
11. NYCC operates a 'pooling' arrangement under which cash held by the Authority is merged with that of other organisations, to secure better overall returns in the money market. Interest is paid at the overall average rate achieved.
12. Any loss incurred by NYCC as a result of default by a counterparty would be apportioned between the participants of the pool (which includes NYCC itself), in proportion to the total surplus cash funds at the time of default.
13. The Authority's Treasury Management and Investment Strategy for 2021/22 states that the Authority's investment priorities are (a) security of capital, and (b) liquidity. We aim to achieve the optimum return on investments within this context.
14. The only financial investments made by NYCC in 2021/22 up to 30 September were the placing of surplus funds on the money markets for periods of up to one year, to institutions included on NYCC's Approved Lending List. The outcomes for the Authority were as follows:

Bank balance as at 30 September 2020	£4,039k
Average Rate achieved up to 30 September 2020	0.67%
Interest Earned up to 30 September 2021	£4k
Average Rate achieved up to 30 September 2020	0.19%
Bank balance as at 30 September 2020	£4,357k

15. The budget projection for 2021/22 for bank interest earnings is £18k for the full year. Based on current interest rates we are likely to miss this target by up to £10k, because interest rates remain at a historic low. Nonetheless, courtesy of the contractual arrangement with NYCC, which generates interest from commercial bank lending, we are continuing to benefit from a rate of return in excess of the current Bank of England base rate.

Interest Rate Forecasts

16. As reported to this committee in July 2021, we achieved an overall interest rate of 0.48% in 2020/21, against a Bank of England base rate of 0.1%; the latter was unchanged at the time of writing. Inflationary pressures are now building within the economy, and current sentiment is that the base rate may rise to 0.25% by the beginning of 2022.

Prudential Indicators

17. The Prudential Code requires appropriate arrangements for the monitoring, reporting and revision of Prudential Indicators. These indicators set out the potential borrowing requirements of the Authority, a necessary step were it to be decided that borrowing should take place. Although there are no plans currently for any borrowing, that fact does not exempt the Authority from complying with this aspect of the Prudential Code.
18. The 2020/21 outturn figures for Prudential Indicators were reported to this Committee on 13 July 2021. That outturn report did not consider any consequential changes to the various indicators set for the period 2021/22 to 2023/24. It is therefore necessary to consider and revise, where appropriate, the Prudential Indicators for the three years up to 31 March 2024. Having reviewed the Authority's budget for 2021/22, and its performance in terms of income and expenditure to date, no changes are proposed to the existing Prudential Indicators. None of the limits set for Prudential Indicators were breached up to 30 September 2021.

Conclusion

19. Treasury Management activities are progressing in line with the agreed strategy, and are currently on schedule to achieve the budgeted investment return for 2021/22.

Richard Burnett
Treasurer

12 October 2021