YORKSHIRE DALES NATIONAL PARK AUTHORITY	ITEM 12
Committee: AUDIT AND REVIEW	
Date: 8 November 2022	
Report: MID-YEAR TREASURY MANAGEMENT REVIEW: REPORT OF THE TREASURER	

Purpose of the report

1. To present details of the Authority's 2022/23 Treasury Management activity up to 30 September 2022, 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 2022/23 investment (Treasury Management) activities up to 30 September 2022.

   (ii) the continued applicability of the Prudential Indicators for the period 2022/23 to 2024/25, as agreed on 29 March 2022.

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 34: 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 2022/23

7. The Authority's Treasury Management and Investment Strategy (approved on 29 March 2022) set out the approach to managing Treasury Management activities for the financial year to 31 March 2023.

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 2022 remains fit for purpose. 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 2022/23 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 financial investments made by NYCC in 2022/23 up until 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 2021	£4,357k
Average Rate achieved in the year to 30 September 2021	0.19%
Interest Earned 2022/23, 6 months to 30 September 2022	**£25.9k**
Average Rate achieved in 6 months to 30 September 2022	**1.07%**
Bank balance as at 30 September 2022	**£4,872k**

15. The original budget projection for 2022/23 for bank interest earnings was £24k for the full year, a target which has already been met at the half-year point. The average interest rate of 1.07% achieved over the last six months takes into account a lower interest rate at the start of this period and a higher one at the end.

16. The Bank of England interest rate has now increased to 2.25%. Without a further increase in rates (see below) and assuming a similar level of bank balance for the remainder of the year, projected income over the next 6 months would be ~£54k. That would bring the total value of interest income to **£80k**, well above the budgeted £24k.

Interest Rate Forecasts

17. The Bank of England's interest rate policy is evolving in line with the current national financial situation. Most commentators anticipate further significant increases in the base rate over the coming year, with Fitch Ratings (as at 10 October) predicting a rise to 4.25% by December and to 5.00% by mid-2023.

18. If these predictions turn out to be correct, the result will be to further increase our income from bank interest this year (see above), potentially by around £30k. More significant will be the impact on bank interest earnings in 2023/24.

19. Putting the above developments into the wider budgetary context of the Authority, such extra income is more than offset by the scale of the inflationary pressures we're now facing: unbudgeted inflation, from rising energy costs and the national pay award agreement, has so far added £202k to our projected deficit for 2023/24.

Prudential Indicators

20. 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.

21. The 2021/22 outturn figures for Prudential Indicators were reported to this Committee on 12 July 2022. That report didn't consider any consequential changes to the various indicators set for the period 2022/23 to 2024/25. It is therefore necessary to consider the Prudential Indicators for the three years up to 31 March 2025. Having reviewed the Authority's 2022/23 budget 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 2022.

Conclusion

22. Treasury Management activities are progressing in line with the agreed strategy, and will achieve a higher-than-budgeted investment return for 2022/23

Richard Burnett
Treasurer

11 October 2022