Appendix A, North York Moors National Park Authority, Treasury Management Policy Statement

1. Background

1.1 The Authority has adopted the CIPFA Code of Practice on Treasury Management in the Public Services. The CIPFA Code of Practice on Treasury Management requires the Authority to adopt the following four clauses of intent:

a) the Authority will maintain as the cornerstone for effective Treasury Management:

  i a strategic Treasury Management Policy Statement (TMPS) stating the policies, objectives, and approach to risk management of the Authority to its treasury management activities;

  ii a framework of suitable Treasury Management Practices (TMPs) setting out the manner in which the Authority will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities. The Code recommends 12 TMPs.

b) the Authority (full Authority and/or FRASC) will receive reports on its Treasury Management policies, practices and activities including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close;

c) the Authority delegates responsibility for the implementation and regular monitoring of its Treasury Management policies and practices to FRASC;

d) the Authority nominates FRASC to be responsible for ensuring effective scrutiny of the Treasury Management Strategies and Policies.

1.2 The CIPFA Prudential Code for Capital Finance in Local Authorities and the terms of the Local Government Act 2003, together with 'statutory' Government Guidance, establish further requirements in relation to treasury management matters, namely:

a) the approval, on an annual basis, of a set of Prudential Indicators;

b) the approval, on an annual basis, of an Annual Treasury Management Strategy, an Annual Investment Strategy, and an annual Minimum Revenue Provision (MRP) policy statement.

2. Treasury management policy statement (TMPS)

2.1 Based on the requirements detailed above a TMPS stating the policies and objectives of the treasury management activities of the Authority is set out below.

2.2 The Authority defines the policies and objectives of the treasury management activities of the Authority as follows:

a) 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;

b) the identification, monitoring and control of risk will be the prime criteria by which the effectiveness of the treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Authority and any financial instrument entered into to manage these risks;

c) effective treasury management will provide support towards the achievement of the business and service objectives of the Authority. The Authority is committed to the principles of achieving value for many in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.

2.3 As emphasised in the Treasury Management Code of Practice, responsibility for risk management and control of Treasury Management activities lies wholly with the Authority and officers of both this Authority and North Yorkshire Council involved in Treasury Management activities are explicitly required to follow Treasury Management policies and procedures.

3. Treasury management practices (TMPs)

3.1 The CIPFA Code of Practice on Treasury Management requires a framework of Treasury Management Practices (TMPs) setting out the manner in which the Authority will seek to achieve these policies and objectives and prescribing how it will manage these activities.

3.2 As the Treasury Management activities of the Authority are undertaken by North Yorkshire Council the Authority has adopted the Treasury Management Practices used by North Yorkshire Council to govern the Treasury Management activities of the Authority. A copy of the North Yorkshire Council Treasury Management Practices is available on request.

4. Prudential indicators

4.1 The Local Government Act 2003 requires the Authority to "have regard to" the CIPFA Prudential Code for Capital Finance in Local Authorities. This Code requires the Authority to set a range of Prudential Indicators for the next three years to ensure that capital spending plans are affordable, prudent, and sustainable.

4.2 The Prudential Code also requires appropriate arrangements to be in place for the monitoring, reporting and revision of Prudential Indicators previously set.

5. Annual treasury management and investment strategy

5.1 A further implication of the Local Government Act 2003 is the requirement for Authority to set out its Treasury Management Strategy for borrowing and to approve an Annual Investment Strategy.

5.2 The Treasury Management contract with North Yorkshire Council covers the day-to-day investment requirements of the Authority. The net return/cost achieved by the Council will be closely monitored by the Chief Finance Officer.

5.3 The Authority's Day to day investments are managed as part of an overall investment pool operated by North Yorkshire Council. In order to facilitate the pooling of investments with the Council, it's Annual Investment Strategy has been adopted by the Authority.

5.4 The Council has approved the combined Annual Strategy alongside the annual Revenue Budget/Medium Term Financial Strategy at its February meeting.

Appendix B, North York Moors National Park Authority, Treasury Management Strategy Statement 24/25

1. Introduction

1.1 This Treasury Management Strategy statement details the expected activities of the Treasury function in the financial year 2024/25. Its production and submission to Members is a requirement of the Local Government Act 2003, the CIPFA Treasury Management Code of Practice in the Public Sector & Prudential Code as updated.

1.2 The suggested strategy for 2024/25 in respect of the following aspects of the treasury management function is based upon officer's views on interest rates, supplemented with market forecasts.

The strategy covers:

- the Treasury Limits in force which will limit the treasury risk and activities of the Authority (paragraph 2);
- Prudential Indicators (paragraph 3);
- the current treasury position (paragraph 4);
- the Borrowing Requirement and Borrowing Limits (paragraph 5);
- Borrowing Policy (paragraph 6);
- prospects for interest rates (paragraph 7);
- the Borrowing Strategy (paragraph 8);
- Minimum Revenue Provision Policy (paragraph 9);
- Annual Investment Strategy (paragraph 10);
- other treasury management issues (paragraph 11).

2. Treasury Limits for 2024/25 to 2026/27

2.1 It is a statutory duty under Section 3 of the Local Government Act 2003 and supporting regulations for the Authority to determine and keep under review how much it can afford to borrow. The amount so determined is termed the Affordable Borrowing Limit.

2.2 The Authority must have regard to the Prudential Code when setting the Affordable Borrowing Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits. In practice, it is equivalent to the Authorised Limit as defined for the Prudential Indicators (therefore see paragraph 3 below).

2.3 Whilst termed an Affordable Borrowing Limit, the spending plans to be considered for inclusion in corporate financing by both external borrowing and other forms of liability such as credit arrangements. The Affordable Borrowing Limit has to be set on a rolling basis for the forthcoming financial year and two successive financial years.

3. Updated Prudential Indicators Proposed for 2024/25 to 2026/27

3.1 The proposed Prudential Indicators for the Authority for the 2024/25 financial year are as follows:

i 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.

The estimated ratios for the current and future years and the actual figures for 2022/23 are set out in the table below. Where the interest on balances exceeds the cost of borrowing, the effective percentage is set at nil.

Year	Basis	%
2022/23	actual	0.00
2023/24	probable	0.00
2024/25	estimate	0.00
2025/26	estimate	0.00
2026/27	estimate	0.00

ii Capital Expenditure Plans (Actual and Estimated)

The actual capital expenditure that was incurred by the Authority in 2022/23 and the estimates of capital expenditure to be incurred for 2023/24 and future years are outlined in the table below.

It is important to note that this table reflects 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.

Year	Basis	£k
2022/23	actual	1,160
2023/24	probable	1,813
2024/25	estimate	2,086
2025/26	estimate	137
2026/27	estimate	302

iii Capital Financing Requirement and Forecast

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:

Date	**Basis**	**Borrowing £k**	**Other long term liabilities £k**	**Total £k**
31 March 2023	actual	0.0	177.2	177.2
31 March 2024	probable	0.0	177.0	177.0
31 March 2025	estimate	0.0	176.8	176.8
31 March 2026	estimate	0.0	176.5	176.5

The above figures provide the option to allow the Authority to consider funding capital purchases by borrowing. However, the level of debt outstanding needs to be adjusted for the Minimum Revenue Provision (MRP). Details of the way in which this provision is made is covered in Section 9 below. This MRP provision applies to debt outstanding at the end of each financial year and therefore the MRP charge will be applicable from 2024/25 onwards and the capital financing requirement will be reduced accordingly.

iv 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 £250k.

The limit is analysed between borrowing and other long-term liabilities (such as finance leases) to show the actual debt owed by the Authority and any other financing instruments that have been used.

The Chief Finance Officer 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.

The recommended Authorised limits for external debt are as follows:

Year	**Borrowing limit £k**	**Other long - term liabilities £k**	**Total £k**
2022/23	250.0	177.2	427.2
2023/24	250.0	177.0	427.0
2024/25	250.0	176.8	426.8
2025/26	250.0	176.5	426.5

The Chief Finance Officer 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 £426.8k will act as this limit for 2024/25.

v Operational Boundary for External Debt

This indicator is based on the probable external debt position during the year. It is not a limit and actual borrowing could vary around this boundary during the year. The difference between this indicator and the Authorised Limit is the £250k which provides headroom for unusual cash movements.

In line with the Authorised limit, the operational boundary is analysed between borrowing and other long-term liabilities separately. The Chief Finance Officer has delegated authority to make in year changes to the operational boundary and its subcategories.

Year	**Borrowing limit £k**	**Other long-term liabilities £k**	**Total £k**
2022/23	0.0	177.2	177.2
2023/24	0.0	177.0	177.0
2024/25	0.0	176.8	176.8
2025/26	0.0	176.5	176.5

vi Actual External Debt

The Authority had no external debt at 31 March 2023. At this late stage of the financial year no external borrowing has been taken to date and none is envisaged by 31 March 2024. For Prudential Indicators, however, other long-term liabilities, such as the finance lease identified in paragraph 3.1 (iii), are classed as external debt for this purpose.

vii Gross Debt and the Capital Financing Requirement

The Prudential Code emphasises that in order to ensure that over the medium-term debt will only be for a capital purpose, the Authority should ensure that debt does not, except in the short term, exceed the total of the capital financing requirement in the preceding year, plus the estimate of any additional capital financing requirement for the current and next two financial years.

The Chief Finance Officer can confirm that the Authority has met this requirement up to 2023/24. Furthermore, no difficulties are anticipated for the period covered by this report to 2024/25.

viii 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%

Period	Lower limit	Upper limit
24 months and within 5 years	0%	100%
5 years and within 10 years	0%	100%
10 years and above	0%	100%

ix Total Principal Sums Invested for Periods longer than 365 days

In line with the Council's policy and advice in this area, a Prudential Indicator of 20% of the Authority's core cash balances is recommended for investments longer than 365 days.

A maximum of 20% of funds available for investment will be held in aggregate in "Non-Specified investments" over 365 days.

4. The current Treasury position

4.1 As at 31 December 2023, the Authority's Treasury position was as shown below

Item	Principal as at 31 December 2023 £k	Average return in 2023/24 to 31 December 2023 %
External Debt Outstanding	0	0
Investments	0	0
Managed by NYC	7,782*	5.51

* **The figure above reflects the principal held as of 31 December 2023. The average daily balance from 1 April to 31 December 2023 was £7,391k.**

5. The borrowing requirement and borrowing limits

5.1 The Operational Boundary reflects an estimate of the most likely, prudent but not worst-case scenario of external debt during the financial year. The Authorised Limit is based on the same estimate as the Operational Boundary but allows sufficient headroom over this figure to allow for unusual cash movements.

5.2 The Authorised Limit therefore represents the maximum amount of external debt which the Authority agrees can be incurred at any time during the financial year and includes both capital and revenue requirements. It is not, however, expected that the Authority will have to borrow up to the limit agreed.

5.3 The agreed Operational Boundary and Authorised Limit for external debt up to 2025/26 are as follows:

Item	2022/23 actual £k	2023/24 estimate £k	2024/25 estimate £k	2025/26 estimate £k
Debt Outstanding at the start of the Year	0.0	0.0	0.0	0.0
+ Internal or External borrowing requirements	0.0	0.0	0.0	0.0
- MRP charged to revenue	0.0	0.0	0.0	0.0
+ Long Term Liabilities	178.1	177.9	177.7	177.6
= Operational Boundary for year	**178.1**	**177.9**	**177.7**	**177.6**
+ Provision to cover unusual cash movements	250.0	250.0	250.0	250.0
= Authorised Limit for year	**428.1**	**427.9**	**427.7**	**427.6**

6. Borrowing Policy

6.1 The policy of the Authority is that if external borrowing is required to finance capital expenditure, then loans will be sought from the Public Works Loan Board (PWLB) or the money markets, over periods up to 70 years which reflect the best possible value to the Authority and/or the life of the Authority's assets. Individual loans are also chosen depending on the perceived value of interest rates at the time of borrowing. Consideration will be given to internal borrowing from internal cash balances. This is dealt with in more detail in Section 8 on Borrowing Strategy.

6.2 The Chief Finance Officer, on the recommendation of the Council's Treasury Management consultant, advises that if borrowing was undertaken from the money markets then loans should be limited to 30% of the total debt portfolio.

6.3 The Authority will look to borrow from the PWLB and money markets at the most advantageous rate. The Chief Finance Officer will monitor this situation closely throughout the year to determine the most appropriate and advantageous borrowing.

6.4 The Prudential Code allows external 'borrowing for capital purposes in advance of need with the constraints of relevant approved Prudential Indicators. There are risks, however, in such borrowing in advance of need and the Authority has not taken any such borrowing to date. Furthermore, the Authority will not borrow more than or in advance of need purely in order to profit from the investment of the extra sums borrowed. Any such borrowing in advance of need will only be considered where there is a clear business case for doing so for the current Capital Plan or to finance future debt maturity payments.

6.5 The merits of internal capital borrowing from the Authority's cash balances also needs to be considered very carefully and this is covered in more detail in paragraphs 8.3 to 8.9.

7. Prospects for Interest Rates

7.1 Whilst recognising the continuing volatility and turbulence in the financial markets, the following paragraphs present a pragmatic and measured assessment of key economic factors as they are likely to impact on interest rates over the next three years.

7.2 In terms of the key economic background and forecasts, looking ahead the current position as summarised by Link Asset Services (the Council's treasury advisors), is as follows:

Link's central forecast for interest rates was previously updated on 25 September and reflected a view that the MPC would be keen to further demonstrate its anti-inflation credentials by keeping Bank Rate at 5.25% until at least H2 2024. Link expects rate cuts to start when both the CPI inflation and wage/employment data are supportive of such a move, and that there is a likelihood of the overall economy enduring at least a mild recession over the coming months, although most recent GDP releases have surprised with their on-going robustness.

Naturally, timing on this matter will remain one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.

In the upcoming months, Link's forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but also international factors such as policy development in the US and Europe, the provision of fresh support packages to support the faltering recovery in China as well as the on-going conflict between Russia and Ukraine, and Gaza and Israel.

On the positive side, consumers are still anticipated to be sitting on some excess savings left over from the pandemic, which could cushion some of the impact of the above challenges and may be the reason why the economy is performing somewhat better at this stage of the economic cycle than may have been expected. However, as noted previously, most of those excess savings are held by more affluent households whereas lower income families already spend nearly all their income on essentials such as food, energy and rent/mortgage payments.

Gilt yield curve movements have broadened since our last Newsflash. The short part of the curve has not moved far but the longer-end continues to reflect inflation concerns. At the time of writing there is 60 basis points difference between the 5- and 50-year parts of the curve.

7.3 Interest rate forecasts

The first half of 2023/24 saw:

- Interest rates rise by a further 100bps, taking Bank Rate from 4.25% to 5.25% and, possibly, the peak in the tightening cycle.
- Short, medium and long-dated gilts remain elevated as inflation continually surprised to the upside.

- CPI inflation falling from 8.7% in April to 6.7% in September, its lowest rate since February 2022, but still the highest in the G7.
- Core CPI inflation declining to 6.1% in September from 7.1% in April and May, a then 31 years high.
- A cooling in labour market conditions, but no evidence yet that it has led to an easing in wage growth (as the 3myy growth of average earnings rose by 7.8% for the period June to August, excluding bonuses).

The registering of 0% GDP for Q3 suggests that underlying growth has lost momentum since earlier in the year. Some of the weakness in July was due to there being almost twice as many working days lost to strikes in July (281,000) than in June (160,000). But with output falling in 10 out of the 17 sectors, there is an air of underlying weakness.

As the growing drag from higher interest rates intensifies over the next six months, we think the economy will continue to lose momentum and soon fall into a mild recession. Strong labour demand, fast wage growth and government handouts have all supported household incomes over the past year. And with CPI inflation past its peak and expected to decline further, the economy has got through the cost-of- living crisis without recession. But even though the worst of the falls in real household disposable incomes are behind us, the phasing out of financial support packages provided by the government during the energy crisis means real incomes are unlikely to grow strongly. Higher interest rates will soon bite harder too. We expect the Bank of England to keep interest rates at the probable peak of 5.25% until the second half of 2024. Mortgage rates are likely to stay above 5.0% for around a year.

The tightness of the labour market continued to ease, with employment in the three months to July falling by 207,000. The further decline in the number of job vacancies from 1.017m in July to 0.989m in August suggests that the labour market has loosened a bit further since July. That is the first time it has fallen below 1m since July 2021. At 3.0% in July, and likely to have fallen to 2.9% in August, the job vacancy rate is getting closer to 2.5%, which would be consistent with slower wage growth. Meanwhile, the 48,000 decline in the supply of workers in the three months to July offset some of the loosening in the tightness of the labour market. That was due to a 63,000 increase in inactivity in the three months to July as more people left the labour market due to long term sickness or to enter education. The supply of labour is still 0.3% below its pre-pandemic February 2020 level.

But the cooling in labour market conditions still has not fed through to an easing in wage growth. The headline 3myy rate rose 7.8% for the period June to August, which meant UK wage growth remains much faster than in the US and in the Euro-zone. Moreover, while the Bank of England's closely watched measure of regular annual average total pay growth for the private sector was 7.1% in June to August 2023, for the public sector this was 12.5% and is the highest total pay annual growth rate since comparable records began in 2001. However, this is affected by the NHS and civil service one-off non-consolidated payments made in June, July and August 2023. The Bank of England's prediction was for private sector wage growth to fall to 6.9% in September.

CPI inflation declined from 6.8% in July to 6.7% in August and September, the lowest rate since February 2022. The biggest positive surprise was the drop in core CPI inflation, which declined from 6.9% to 6.1%. That reverses all the rise since March.

In its latest monetary policy meeting on 06 November, the Bank of England left interest rates unchanged at 5.25%. The vote to keep rates on hold was a split vote, 6-3. It is clear that some members of the MPC are still concerned about the stickiness of inflation.

Like the US Fed, the Bank of England wants the markets to believe in the higher for longer narrative. In terms of messaging, the Bank once again said that "further tightening in monetary policy would be required if there were evidence of more persistent inflationary pressures", citing the rise in global bond yields and the upside risks to inflation from "energy prices given events in the Middle East". So, like the Fed, the Bank is keeping the door open to the possibility of further rate hikes. However, it also repeated the phrase that policy will be "sufficiently restrictive for sufficiently long" and that the "MPC's projections indicate that monetary policy is likely to need to be restrictive for an extended period of time". Indeed, Governor Bailey was at pains in his press conference to drum home to markets that the Bank means business in squeezing inflation out of the economy.

This narrative makes sense as the Bank of England does not want the markets to decide that a peak in rates will be soon followed by rate cuts, which would loosen financial conditions and undermine its attempts to quash inflation. The language also gives the Bank of England the flexibility to respond to new developments. A rebound in services inflation, another surge in wage growth and/or a further leap in oil prices could conceivably force it to raise rates in the future.

7.4 The balance of risks to the UK

The overall balance of risks to economic growth in the UK is now to the downside.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Labour and supply shortages prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, could keep gilt yields high for longer).
- The Bank of England has increased Bank Rate too fast and too far over recent months, and subsequently brings about a deeper and longer UK recession than we currently anticipate.
- UK / EU trade arrangements – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.

- Geopolitical risks, for example in Ukraine/Russia, the Middle East, China/Taiwan/US, Iran and North Korea, which could lead to increasing safe-haven flows; and

Upside risks to current forecasts for UK gilt yields and PWLB rates include:

- The **Bank of England is too slow** proves too timid in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to remain elevated for a longer period within the UK economy, which then necessitates Bank Rate staying higher for longer than we currently project
- **The pound weakens** because of a lack of confidence in the UK Government's fiscal policies, resulting in investors pricing in a risk premium for holding UK sovereign debt.
- Longer term **US treasury yields** rise strongly if inflation remains more stubborn there than the market currently anticipates, consequently pulling gilt yields up higher.
- Projected **gilt issuance, inclusive of natural maturities and QT,** could be too much for the markets to comfortably digest without higher yields consequently.

7.5 The Council has appointed Link Asset Services - Treasury Solutions (previously known as Capita Asset Services) as its treasury management advisor and part of their service is to assist in formulating a view on interest rates. By drawing together a number of current city forecasts for short term (Bank rate) and longer fixed interest rates a consensus view for bank rate, PWLB borrowing rates and short-term investment rates is as follows:

Link Group Interest Rate View	08.01.24												
	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
BANK RATE	5.25	5.25	4.75	4.25	3.75	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	5.00	4.50	4.00	3.50	3.30	3.00	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.20	5.10	4.80	4.30	3.80	3.30	3.20	3.10	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.00	4.90	4.60	4.10	3.70	3.20	3.20	3.10	3.10	3.10	3.10	3.20	3.20
5 yr PWLB	4.50	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.60	3.50	3.50	3.50
10 yr PWLB	4.70	4.50	4.40	4.30	4.20	4.10	4.00	3.90	3.80	3.70	3.70	3.70	3.70
25 yr PWLB	5.20	5.10	4.90	4.80	4.60	4.40	4.30	4.20	4.20	4.10	4.10	4.10	4.10
50 yr PWLB	5.00	4.90	4.70	4.60	4.40	4.20	4.10	4.00	4.00	3.90	3.90	3.90	3.90

7.6 As shown in the forecast table above, the forecast for Bank Rate now includes three decreases for 2024/25, one in September 2024 to 4.75%, December 2024 to 4.25%, then to 3.75% in March 2025.

It is not expected that Bank Rate will peak beyond 5.25%, but it is possible.

8. The Borrowing Strategy

8.1 Based on the interest rate forecast outlined above, there is as usual a range of options available for the borrowing strategy for 2024/25.

8.2 The main Strategy for undertaking new borrowing will be to generally take advantage of the lowest borrowing rates available with forecast PWLB borrowing rates (see paragraph 7.4) for under 10 years expected to be cheaper than longer term borrowing. The downside of such shorter-term borrowing is the loss of long-term stability in interest payments that longer term fixed interest rate borrowing provides.

External -v- internal borrowing

8.3 Due to the current risks and uncertainties within the economy, caution will be adopted with the 2024/25 treasury operations. The Chief Finance Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

8.4 The Authority has cash balances. In 2023/24 there is a current daily average of £7,391k. This cash consists of cash flow generated (creditors and debtors etc); reserves, balances and provisions etc.

8.5 The existing borrowing policy does provide for such shorter term borrowing from the Authority's revenue cash balances depending on the relationship between short term variable interest rates and the fixed term PWLB or money market rates for longer periods. Consideration will, therefore, be given to the potential merits of internal borrowing.

8.6 Over the next three years investment rates are expected to be below long-term borrowing rates. A value for money assessment would indicate that value could be obtained by avoiding/delaying some or all new external borrowing and by using internal cash balances to finance new capital expenditure. This would maximise short term savings but is not risk free.

8.7 The use of such internal borrowing, which runs down investments, also has the benefit of reducing exposure to low interest rates on investments, and the credit risk of counterparties.

In considering this option, however, two significant risks to take into account are:

a) the implications of day-to-day cash flow constraints; and

b) short term savings by avoiding/delaying new external borrowing must be weighed against the loss of longer-term interest rate stability. Thus, there is the potential for incurring long term extra costs by delaying unavoidable new external borrowing until later years by which time PWLB long term rates are forecast to be slightly higher.

8.8 Against this background, the Chief Finance Officer will monitor the interest rate market and adopt a pragmatic approach to changing circumstances - any key strategic decisions that deviate from the above will be reported to the Authority as soon as possible.

Sensitivity of the forecast

8.9 The main sensitivities of the forecast are likely to be the two scenarios below. The Chief Finance Officer will, in conjunction with the Council’s Treasury Management Adviser, continually monitor both the prevailing interest rates and the market forecasts, adopting the following responses to a significant change of market view:

i if it is felt that there was a significant risk of a sharp fall in both long- and short-term rates, e.g., Due to the marked increase of risks around the relapse into recession or of risks of deflation, then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short rate funding will be considered;

ii if it is felt that there was a significant risk of a much sharper rise in both long- and short-term rates than currently forecast, perhaps arising from a greater than expected increase in world economic activity or sudden increases in inflation, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates were still relatively cheaper.

9. Minimum Revenue Provision Policy

9.1 The statutory requirement for local authorities to charge revenue each year a specific sum for debt repayment was replaced in February 2008 with more flexible statutory guidance.

9.2 The new simple statutory duty is that a local authority shall determine for the current financial year an amount of minimum revenue provision (MRP) that it considers to be prudent. This replaces the previous prescriptive requirement that the minimum sum should be 4% of the Authority's Capital Financing Requirement (CFR). The CFR consists of external debt plus capital expenditure financed by borrowing from internal sources (surplus cash balances).

9.3 Along with the above duty the Government also issued new guidance in February 2008 which requires that a Statement on the Authority's policy for its annual MRP should be submitted to the Authority for approval before the start of the financial year to which the provision will relate. The Authority are therefore legally obliged to have regard to this MRP guidance in the same way as applies to other statutory guidance such as a CIPFA Prudential Code, the CIPFA Treasury Management Code and the CLG guidance in Investments.

9.4 The guidance is intended to enable a more flexible approach to assessing the amount of annual provision than was required under previous statutory requirements. The guidance offers four options under which MRP might be made, with an overriding recommendation that the Authority should make prudent provision to redeem its debt liability over a period which is reasonably commensurate with that over which the capital expenditure is estimated to provide benefits (i.e. estimated useful life of the asset being financed). The previous system of 4% MRP did not necessarily provide that link. Although four options are described in the guidance, there is no intention to be prescriptive to make these the only options which a local authority may consider as being prudent.

9.5 The guidance also requires an annual review of MRP policy being undertaken and it is appropriate that this is done as part of this annual Treasury Management report.

9.6 The move to IFRS in 2010/11 involved some long-term liabilities such as finance leases being brought onto balance sheets with a consequential impact on the CFR and annual MRP provision. As a result, the Danby Lodge Visitor Centre is now included on balance sheet as a long-term liability. This new accounting treatment impacts on the CFR mentioned in paragraph 9.2 above with the result that an annual MRP provision is required for the finance lease. To ensure that this change has no overall financial impact on local authority budgets, the Government updated their "Statutory MRP Guidance" with effect from 31 March 2010. This updated Guidance allows MRP to be equivalent to the existing lease rental payments and the implications of this are reflected in the authority's MRP policy for 2020/21 as set out in paragraph 9.7 below.

9.7 The policy for 2024/25 therefore takes into account the fact that the Authority has no outstanding debt. The proposed policy is as follows.

For locally agreed Prudential Borrowing on capital expenditure incurred after 1 April 2008, MRP will be calculated based on equal annual instalments over the estimated useful life of the asset for which the borrowing is undertaken. For finance leases, MRP will be equivalent to the annual rental payable under the lease agreement.

9.8 The estimated life of relevant assets will be assessed each year based on types of capital expenditure incurred but in general will be 25 years for buildings, 50 years for land, 5 to 7 years for vehicles, plant and equipment, and 3 years for IT equipment. To the extent that expenditure is not on the creation of an asset (e.g. capital grants and loans) and is of a type that is subject to estimated life periods that are referred to in the guidance, these periods will generally be adopted by the Authority.

9.9 This method of calculating the MRP is a simpler alternative to depreciation accounting. The option also allows the Authority to defer the introduction of an MRP charge for new capital projects/land purchases until the year after the new asset becomes operational rather than in the year borrowing is required to finance the capital spending. This approach is beneficial for projects that take more than one year to complete and is therefore included as part of the MRP policy.

9.10 This policy has been used, in respect of the requirement for capital expenditure, to calculate the provisions made in the Prudential Indicators set out in section 3 of this statement.

9.11 Future annual reviews of the Authority's MRP Policy will be undertaken and reported to Members as part of this Annual Treasury Management report.

10. Annual Investment Strategy (AIS)

Background

10.1 Under the Local Government Act 2003 the Authority is required to have regard to Government Guidance in respect of its cash flows. The Guidance leaves local authorities free to make their own investment decisions, subject to the fundamental requirement of an Annual Investment Strategy being approved by the Authority before the start of the financial year.

10.2 The Treasury Management Contract with North Yorkshire Council covers the day-to-day investment requirements of the Authority. The net return/cost achieved by the Council officers will be closely monitored by the Chief Finance Officer.

10.3 Within the terms of the contract the Council continues to make all investments in accordance with the Local Government Act 2003 which requires an Annual Investment Strategy to be approved. The Authority has, therefore, adopted the Annual Investment Strategy approved by the Council. A copy of the document is available for members on request.

10.4 In addition to this updated Investment Strategy, a revised Strategy will be submitted to Authority for consideration and approval where there are significant developments that might impact on the Authority's investments and the existing strategy for managing those investments.

Investment Policy

10.5 The Authority's investment priorities are:

i the Authority will have regard to the revised Government Guidance on Local Government Investments and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectorial Guidance Notes;

ii the Authority's investment policy has two fundamental objectives:

the security of capital (protecting the capital sum from loss); and then

liquidity (keeping the money readily available for expenditure when needed).

iii the Authority will also aim to seek the highest return (yield) on its investments provided that proper levels of security and liquidity are achieved. The risk appetite of the Authority is low in order to give priority to the security of investments;

iiii the borrowing of monies purely to invest or on-lend and make a return is unlawful and the Authority will not engage in such activity;

v investment instruments for use in the financial year are listed under Specified and Non-Specified investment categories (see paragraphs 10.8 and 10.9);

vi Counterparty Limits (which are set to secure the surplus funds the authority lends to counterparties) will be as set through the North Yorkshire Council's Treasury Management Practices Schedules.

Policy regarding loans to other bodies

10.6 The Authority's general investment powers under this Annual Treasury Management Strategy come from the Local Government Act 2003. Under this Act a local authority has the power to invest for any purpose relevant to its functions or for the purpose of the prudent management of its financial affairs.

10.7 In addition to investment, the Authority has the power to provide loans and assistance to other bodies under the Localisation Act 2011. Any such loans made under these powers will not, however, be classed as investments and will not impact on the Investment Strategy. Instead, they will be classed as capital expenditure under the Local Authorities Regulations 2003 and will be approved, financed, and accounted for accordingly.

10.8 Investment Instruments identified for use in the forthcoming financial year are listed in the Schedule B under the specified and non-specified Investment categories:

all specified Investments are defined by the Government as options with "relatively high security and high liquidity" requiring minimal reference in investment strategies. In this context, the Authority has defined Specified Investments as being sterling denominated, with maturities up to a maximum of 1 year meeting the minimum high credit quality;

Non-specified investments (see Schedule B) attract a greater potential of risk.

Creditworthiness Policy

10.9 The approved Lending List of Organisations (counterparties) to which the Authority may make investments, together with the maximum sum at any time that can be placed with each, is outlined in the Council's Treasury Management Practices (TMPs) and Treasury Management Policy Statement (TMPS) as covered by the contractual arrangements with the Council.

10.10 Any changes to the approved Lending List are made by the Chief Finance Officer under delegated powers and reported to the Council's Executive and to this Authority as part of the reporting arrangements.

10.11 The Lending List of the Council for the 2024/25 Treasury Management and Investment Strategy is detailed in Schedule A to Appendix B (Treasury Management Strategy Statement 2024/25).

10.12 The credit worthiness policy, the criteria for monitoring and assessing organisations to which the Authority may make investments, is incorporated into the detailed Treasury Management Practices that support the Treasury Management Policy Statement mentioned above. Applying these criteria enables the Authority to produce an Approved Lending List of organisations.

10.13 The credit worthiness policy of the Authority reflects the significantly enhanced criteria which has developed throughout the period of considerable turmoil in the financial markets since 2008. This approach has reflected the following:-

a) a system of scoring each organisation using Link's (the Council's approved Treasury Management consultants) creditworthiness service. The service which has been progressively developed uses a sophisticated modelling system that includes:

- credit ratings published by the three credit rating agencies (Fitch, Moodys and Standard and Poor) which reflect a combination of components (long term and short term);
- credit watches and credit outlooks from the ratings agencies;
- Credit Default Swaps (CDS) spreads to give early warnings of likely changes in credit ratings;
- Other information sources, including share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the availability of potential investment counterparties.

b) sole reliance would not be placed on the information provided by Link. In addition, the Council will also use market data and information available from other sources, such as the financial press and other agencies and organisations.

c) in addition to the above, the following measures would also continue to be actively taken into consideration:

- institutions will be removed or temporarily suspended from the Approved Lending List if there are significant concerns about their financial standing or stability;
- investment exposure will be concentrated with higher rated institutions wherever possible.

10.14 Utilising the approach to the assessment of credit quality, the criteria and investment limits for specified investments (a maximum of 365 days) are:

- institutions which are substantially owned by the UK Government (Nationalised Banks) being limited to £75m;

  other institutions achieving suitable credit scores and colour bonding being limited to a maximum investment limit of between £20m and £60m (actual duration and investment limit dependent on final colour/score).

10.15 Local Authorities will continue to be included on the Approved Lending List for 2024/25, although suitable investment opportunities are limited. Local Authorities are classed as having the highest credit rating due to the way they are financed and their governance arrangements.

10.16 The Council manages its cash balances internally, including those of this Authority.

10.17 Ongoing discussions will be held with the Council's Treasury Management Adviser on whether to consider the appointment of fund manager(s) or continue investing in-house or any other appropriate investment opportunities.

10.18 The authority's cash balances are invested with the Councils funds and therefore the investment interest earned by the Authority will be from a combination of different investments over differing periods.

10.19 Changes have been made to the Lending List of the Council for the 2024/25 Treasury Management and Investment Strategy and the Lending List is kept under regular review. This revised lending list, at the time of compiling this report, is detailed in Schedule A.

11. Other Treasury Management Issues

11.1 The Chief Finance Officer continues to monitor and assess other potential innovative methods of investing funds. Depending on the way these initiatives progress, it may be necessary to review the overall financing/borrowing figures included in this Strategy. The Chief Finance Officer will monitor the position as it develops throughout the year and report as necessary to the Authority.

11.2 As part of the review of alternative investment options, the Approved Lending List is continuously reviewed in order to further increase investment opportunities.

Pete Williams

Chief Finance Officer to North York Moors National Park Authority

Schedule A, Approved lending list 2024/25

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 £40m 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	90.0	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	80.0	6 months	-	-
Barclays Bank PLC (NRFB)	GBR	90.0	100 days	-	-
Barclays Bank UK PLC (RFB)	GBR		6 months		
Bank of Scotland PLC (RFB)	GBR	80.0	6 months	-	-
Lloyds Bank PLC (RFB)	GBR				
Lloyds Bank Corporate Markets PLC (NRFB)	GBR				
Goldman Sachs International Bank	GBR	80.0	6 months	-	-
Sumitomo Mitsui	GBR	80.0	6 months	-	-
Standard Chartered Bank	GBR	80.0	6 months	-	-
Handlesbanken	GBR	80.0	365 days	-	-
Nationwide Building Society	GBR	40.0	6 months	-	-
Leeds Building Society	GBR	40.0	3 months	-	-
Coventry Building Society	GBR	40.0	6 months	-	-
High Quality Foreign Banks					
National Australia Bank	AUS	40.0	365 days	-	-
Credit Industriel et Commercial	FRA	40.0	365 days	-	-
Landesbank Hessen-Thueringen Girozentrale (Helaba)	GER	40.0	365 days	-	-
DBS (Singapore)	SING	40.0	365 days	-	-
Bayerische Landesbank	GER	40.0	6 months	-	-
National Bank of Canada	CAN	40.0	6 months	-	-
Local Authorities					
County / Unitary / Metropolitan / District Councils		30.0	365 days	5.0	5 years
Police / Fire Authorities		30.0	365 days	5.0	5 years
National Park Authorities		30.0	365 days	5.0	5 years
Other Deposit Takers					
Money Market Funds		40.0	n/a liquid	-	-
Property Funds		5.0	365 days	5.0	10 years
UK Debt Management Account		150.0	365 days	-	-

* Based on data 30 September 2023

Based on data as 30 September 2023

North York Moors National Park Authority annual investment strategy 2024/25 specified investments

(All such investments will be sterling denominated, with **maturities up to a maximum of 1 year**, meeting the minimum 'high' rating criteria where applicable)

-	**Minimum 'High' Credit Criteria**	**Use**
Debt Management Agency Deposit Facility	--	In-house
Term deposits – local authorities	--	In-house
Term deposits – banks and building societies **	Colour Band Green	In-house

Term deposits with nationalised banks and banks and building societies

-	**Minimum Credit Criteria**	**Use**
UK part nationalised banks	Colour Band Blue	In-house

Other specified investments

-	Minimum 'High' Credit Criteria	Use
UK Government Gilts	UK sovereign rating	In-house buy and hold and Fund Managers
Bonds issued by multilateral development banks	AAA or Government backed	In-house buy and hold and Fund Managers
Bonds issued by a financial institution which is explicitly guaranteed by the UK Government e.g., National Rail	UK sovereign rating	In-house buy and hold and Fund Managers
Treasury Bills	UK sovereign rating	In house and Fund Managers

Collective Investment Schemes structured as Open-Ended Investment Companies (OEICs): -

-	Minimum 'High' Credit Criteria	Use
1a. Money Market Funds (CNAV)	Funds must be AAA rated (MMF rating)	In-house and Fund Managers
1b. Money Market Funds (LVNAV)	Funds must be AAA rated (MMF rating)	In-house and Fund Managers
1c. Money Market Funds (VNAV)	Funds must be AAA rated (MMF rating)	In-house and Fund Managers

North York Moors National Park Authority investment strategy 2024/25 – non-specified investments

-	Minimum Credit Criteria	Use	Maximum investments	Maximum maturity period
Term deposits – local authorities with maturities greater than 1 year	--	In-house	£60m	5 yrs
Term deposits – banks and building societies with maturities greater than 1 year	Colour band Purple	In-house	£60m	5 yrs
Certificates of deposit issued by banks and building societies with maturities greater than 1 year	Colour band Purple	In-house	£60m	5 yrs
Certificates of deposit issued by banks and building societies with maturities greater than 1 year	Short-term F1, Long-term A- (Fitch or equivalent	Fund Managers	£60m	5 yrs
Collateralised deposits	UK sovereign rating	In-house	£60m	5 yrs
UK Government Gilts with maturities greater than 1 year	UK sovereign rating	In-house and Fund Managers	£60m	5 yrs
Bonds issued by multilateral development banks with maturities greater than 1 year	AA or Government backed	In-house and Fund Managers	£60m	5 yrs
Collective Investment Schemes structured as Open-Ended Investment Companies (OEICs)				
Property Funds	Organisations assessed as having "high credit quality"	In-house after consultation with Treasury Management Advisor	£60m	10 yrs

Appendix C, North York Moors National Park Authority

Capital Strategy

1. **Background**

1.1 The purpose of the Capital Strategy is to demonstrate that the Authority takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability. It sets out the long term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes.

1.2 The Capital Strategy comprises a number of distinct, but inter-related, elements as follows:

a) Capital Expenditure (Section 2)

This section includes an overview of the governance process for approval and monitoring of capital expenditure, including the Authority's policies on capitalisation, and an overview of its capital expenditure and financing plans.

b) Capital Financing and Borrowing (Section 3)

This section provides a projection of the Authority's capital financing requirement, how this impacted by capital expenditure decisions and how it will be funded and repaid. It therefore sets out the Authority's borrowing strategy and explains how it will discharge its duty to make prudent revenue provision for the repayment of debt.

c) Alternative Investments (Section 4)

This section provides an overview of those of the Authority's position regarding alternative investment options.

d) Chief Finance Officer's statement (Section 5)

This section sets out the Chief Financial Officer's requirement to report on the affordability and risk associated with the capital strategy.

2. **Capital Expenditure**

Capitalisation Policy

2.1 Expenditure is classified as capital expenditure when it results in the acquisition or construction of an asset (e.g., land, buildings, roads and bridges, vehicles, plant, and equipment etc.) that:

- will be held for use in the delivery of services, for rental to others, investment or for administrative purposes; and
- are of continuing benefit to the Authority for a period extending beyond one financial year.

Subsequent expenditure on existing assets is also classified as capital expenditure if these two criteria are met.

2.2 There may be instances where expenditure does not meet this definition but would be treated as capital expenditure, including:

- where the Authority has no direct future control or benefit from the resulting assets, but would treat the expenditure as capital if it did control or benefit from the resulting assets; and
- where statutory regulations require the Authority to capitalise expenditure that would not otherwise have expenditure implications according to accounting rules.

Governance

2.3 Capital expenditure is a necessary element in the development of the Authority's services since it generates investment in new and improved assets. Capital expenditure is managed through the annual budget as part of the budget setting process and reviewed quarterly as part of performance monitoring arrangements.

2.4 The Authority's Financial Procedure Rules provide a framework for the preparation and appraisal of proposed capital schemes and appropriate authorisations for individual schemes to proceed.

Capital expenditure and funding plans

2.5 The Authority's capital expenditure plans are set out in Appendix B Section 3.

2.6 When expenditure is classified as capital expenditure for capital financing purposes, this means that the Authority is able to finance that expenditure from any of the following sources:

- Capital grants and contributions - amounts awarded to the Authority in return for past or future compliance with certain stipulations.
- Capital receipts - amounts generated from the sale of assets and from the repayment of capital loans, grants or other financial assistance.
- Revenue contributions - amounts set aside from the revenue budget in the Reserve for Future Capital Funding.
- Borrowing - amounts that the Authority does not need to fund immediately from cash resources, but instead charges to the revenue budget over a number of years into the future.

2.7 The implications of financing capital expenditure from 'borrowing' are explained in section 3 below.

3. Capital financing requirement and borrowing

Context

3.1 The Authority is required to comply with the CIPFA Prudential Code for Capital Finance in Local Authorities (referred to as the 'Prudential Code') when assessing the affordability, prudence and sustainability of its capital investment plans.

3.2 Fundamental to the prudential framework is a requirement to set a series of prudential indicators. These indicators are intended to collectively build a picture that demonstrates the impact over time of the Authority's capital expenditure plans upon the revenue budget and upon borrowing and investment levels, and explain the overall controls that will ensure that the activity remains affordable, prudent and sustainable.

3.3 A summary of the actual prudential indicators for 2022/23, and the estimates for 2023/24 through to 2025/26, are provided in Appendix B Section 3.

Capital financing requirement

3.4 When capital expenditure is funded from borrowing, this does not result in expenditure being funded immediately from cash resources but is instead charged to the revenue budget over a number of years. It does this in accordance with its policy for the repayment of debt, which is set out in Appendix B Section 11.

3.5 The forward projections of the CFR reflect:

- Additional capital expenditure from borrowing or further credit arrangements resulting in an increase to the CFR; and
- Revenue budget provision being made for the repayment of debt, which results in a reduction to the CFR).

3.6 The actual CFR for 2023/24 and forward projections, updated for the latest capital expenditure plans, for the current and forthcoming years are as follows:

3.7

Item	2022/23 Actual £000	2023/24 Probable £000	2024/25 Estimate £000	2025/26 Estimate £000	2026/27 Estimate £000
Capital Borrowing Other Long-Term Liabilities	0.0 177.2	0.0 177.0	0.0 176.8	0.0 176.5	0.0 176.2
Total Capital Financing Requirement	177.2	177.0	176.8	176.5	176.2

Capital expenditure plans do not include any expenditure relating to non-core alternative investments. In the event any alternative investment plans are developed in the future capital expenditure plans will updated and consideration will be given to the potential impact on the Capital Financing Requirement.

External borrowing limits

3.8 The Authority is only permitted to borrow externally (including via credit arrangements) up to the level implied by its Capital Financing Requirement (CFR).

To ensure that external borrowing does not exceed the CFR, other than in the short term, limits are established for external debt, as follows:

- Authorised limit – this defines the maximum amount of external debt permitted by the Authority, and represents the statutory limit determined under section 3 (1) of the Local Government Act 2003.
- Operational boundary – this is an estimate of the probable level of the Authority's external debt and provides the means by which external debt is managed to ensure that the 'authorised limit' is not breached.

3.9 The proposed limits, which are set out in Appendix B Section 3, make separate provision for external borrowing and other long-term liabilities, and are based upon an estimate of the most likely but not worst case scenarios. They allow sufficient headroom for fluctuations in the level of cash balances and in the level of the CFR.

3.10 Alternative investment activities are likely to be classed as capital expenditure and as such any decision to incorporate into capital expenditure plans would impact on current borrowing limits.

Borrowing strategy

3.11 The Authority's Borrowing Strategy is set out in Appendix B Section 8.

3.12 The Authority does not currently have any external borrowing in place. In the event borrowing is required the strategy will be to take advantage of the lowest borrowing rates available with forecast PWLB borrowing rates.

3.13 Consideration will also be given to the potential merits of internal borrowing from the Authority's revenue cash balances depending on the relationship between short term variable interest rates and the fixed term PWLB or money market rates for longer periods.

Minimum revenue provision

3.14 The Authority sets cash resources aside from the Revenue Budget each year to repay the borrowing. This practice is referred to as the minimum revenue provision (MRP) for the repayment of debt.

3.15 The Capital Financing Requirement (CFR) provides a measure of the amount of capital expenditure which has been financed from borrowing that the Authority yet to fund from cash resources.

3.16 Statutory guidance requires MRP to be provided annually on a prudent basis. In accordance with the requirement to make a prudent 'revenue provision for the repayment of debt', the Authority ensures that debt is repaid over a period that is commensurate with the period over which the capital expenditure provides benefit. This is achieved by applying the methodology set out in Appendix B Section 11.

4. Alternative Investments

Introduction

4.1 The introduction of the general power of competence has given authorities far more flexibility in the types of activity they can engage in. These changes in the economic and regulatory landscape, combined with significant financial challenges, have led many authorities to consider different and more innovative types of investment.

4.2 The CIPFA Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes (the Treasury Management Code) requires authorities to incorporate all of the financial and non-financial assets held for financial return in authorities' annual capital strategies

4.3 Separately, The Department for Levelling Up, Housing and Communities Statutory Guidance on Local Authority Investments also reinforces the need for Commercial Activities to be included in the Capital Strategy.

4.4 In addition, His Majesty's Treasury introduced revised lending terms for borrowing from the PWLB on 25 November 2020. Under the revised lending terms, the government has now ended access to the PWLB for Local Authorities that wish to buy commercial assets primarily for yield, as assessed by the statutory Section 151 officer. Local Authorities remain free to buy commercial assets primarily for yield, but are not able to take out new loans from the PWLB in year where they have any plans to buy commercial assets at any point over the following 3-year period (any loans taken out under the old system are not affected by this change). As a result, of the revised lending terms the government has now cut PWLB lending rates.

4.5 In advance of confirmation of the statutory requirements related to commercial investment activities, the following paragraphs provide an overview of the Authority's current approach to commercial investment activity. This section of the Capital Strategy will need to be updated once the revised statutory Guidance on Local Authority Investments is published and/or as the Authority's own agenda for commercial investments evolves.

4.6 In accordance with CIPFA's Commercial Property Investment guidance, issued in Autumn 2019, the Authority does not plan to externally borrow to finance commercial investments. Further to this, the Authority currently has no plans in place regarding alternative investments. Should these plans change, then the latest CIPFA guidance will be given due consideration.

5. Chief Finance Officer's statement

5.1 The Prudential Code for Capital Finance in Local Authorities (the Prudential Code) plays a key role in capital finance in local authorities. Local authorities determine their own programmes for investment that are central to the delivery of quality public services. The Prudential Code was developed by CIPFA as a professional code of practice to support local authorities in taking their decisions. Local authorities are required by regulation to have regard to the Prudential Code when carrying out their duties under Part 1 of the Local Government Act 2003.

5.2 In financing capital expenditure, local authorities are governed by legislative frameworks, including the requirement to have regard to CIPFA's Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes.

5.3 In order to demonstrate that capital expenditure and investment decisions are taken in line with service objectives and properly take account of stewardship, value for money, prudence, sustainability and affordability, the Prudential Code requires authorities to have in place a Capital Strategy that sets out the long term context in which capital expenditure and investment decisions are made, and gives due consideration to both risk and reward and impact on the achievement of priority outcomes.

5.4 The Prudential Code requires the Chief Finance Officer to report explicitly on the affordability and risk associated with the Capital Strategy. The following are specific responsibilities of the Chief Finance Officer:

- recommending clauses, treasury management policy/practices for approval, reviewing regularly, and monitoring compliance;
- submitting regular treasury management reports;
- submitting regular budget reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers;
- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management;
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money;
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority;
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing;
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources;

- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long-term liabilities;
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees;
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority;
- ensuring that the authority has adequate expertise, either in house or externally provided;
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed.

5.5 The Capital Strategy provides an overview of the governance process for approval and monitoring of capital expenditure. These processes along with, the Capital Strategy and Prudential Indicators demonstrate that the capital expenditure, investment and financing plans of the Authority are robust, affordable and sustainable.