Item 11

North York Moors National Park Authority

21 March 2016

Treasury Management and The Prudential Code for Capital Finance
Report of the Treasurer

1. Purpose of the Report

1.1 To consider the updated Annual Treasury Management Strategy and Annual Investment Strategy for 2016/17, and Prudential Indicators for the financial years 2016/17 – 2018/19.

2. Background

2.1 Treasury Management is defined as:

> "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 these activities and the pursuit of optimum performance consistent with those risks."

2.2 Members will be aware that each February the Finance, Risk and Standards Committee (FRASC) considers a report on Treasury Management and the Prudential Code Indicators for borrowing. This report reflects that made to FRASC in February 2016 although it has been updated to include the latest economic commentary. The function of Treasury Management is undertaken for the Authority by North Yorkshire County Council via a service level agreement. The Treasurer will be at the meeting to present this paper and answer any detailed questions that Members may have.

2.3 On Investments, the County Council pools the monies it invests on behalf of the Authority with its own funds and those of other organisations for which it undertakes a similar treasury management service. The approach adopted, consistent with the policy statement of this Authority, covered later in this report, is to ensure the security of capital and liquidity of investments. The Authority will also aim to seek the highest return on its investments provided that proper levels of security and liquidity are achieved. The approach to managing the risks associated with these activities is set out in the requirements of the various codes described in the report. The current approved lending list of banks and organisations that the Treasurer can invest in is included at **Schedule A** to the Appendix of this report.

2.4 On borrowing as at the end of February 2016, the Authority does not have any loans in place and has not needed to borrow to fund capital projects. Despite not having taken out loans, 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 purchases. The indicators proposed in this report continue the practice of identifying the probable costs of replacing equipment over the coming years (e.g. ranger vehicles, photocopiers, IT Equipment etc.) and therefore establishing the necessary parameters to allow a decision to be taken to borrow funds if that proves to be the optimum solution. Nothing in the report commits the Authority to any decision to borrow funds.

2.5 The Authority is required to

(a) approve an **Annual Treasury Management Strategy (ATMS)** for 2016/17;

(b) approve an **Annual Investment Strategy (AIS)** for 2016/17;

(c) approve a **Minimum Revenue Provision Policy (MRP)** for 2016/17; and

(d) approve an updated set of **Prudential Indicators (PI's)** for the period 2016/17 to 2018/19.

2.6 In doing so, the Authority must have regard to the following guidance, both of which were last revised in November 2011 and adopted by the Authority on 26 March 2012:

- **CIPFA Code of Practice on Treasury Management in the Public Services**
- **CIPFA Prudential Code for Capital Finance in Local Authorities**

2.7 The combined effect of these Codes and their relevant Regulations is that the Authority has to have in place by the start of the new financial year the following:

(a) An up to date Treasury Management Policy Statement;

(b) An Annual Treasury Management and Investment Strategy Statement and Minimum Revenue Provision Policy.

2.8 As noted above, the Treasury Management arrangements of the Authority are currently provided under contract by North Yorkshire County Council. The County Council is required (under this contract) to comply with the terms of this Authority's approved Treasury Management Policy Statement and Annual Treasury Management Strategy.

2.9 This report is required to obtain formal approval prior to the 1 April 2016.

3. **Treasury Management Policy Statement**

3.1 The CIPFA Code of Practice on Treasury Management requires the Authority to approve:

(a) a **Treasury Management Policy Statement** (TMPS) stating the policies, objectives and approach to risk management of its treasury management activities.

(b) suitable **Treasury Management Practices** (TMPs) setting out the manner in which the Authority will seek to activate the policies and objectives and prescribing how it will manage and control these activities.

3.2 Based on the requirements detailed in **paragraph 3.1(a)** above, a **Treasury Management Policy Statement** stating the Authority's policies and objectives of its treasury management activities is set out below and no changes are required.

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

(a) treasury management is 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 these activities, and the pursuit of optimum performance consistent with these risks.

(b) the successful 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.

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

3.4 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 County Council involved in Treasury Management activities are explicitly required to follow Treasury Management policies and procedures.

3.5 As referred to in **paragraph 3.3(b)** above, 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. The Code recommends twelve different TMPs.

3.6 As the Treasury Management activities of the Authority are carried out by North Yorkshire County Council, the approach used has been for the Authority to adopt the TMPs used by North Yorkshire County Council to govern their own Treasury Management activities. A copy of the North Yorkshire County Council TMPs is available on request.

4. CIPFA Prudential Code for Capital Finance in Local Authorities

4.1 Under the terms of the Local Authorities (Capital Finance and Accounting) Regulations 2003, the Authority must comply with the CIPFA Prudential Code on Capital Finance in Local Authorities as updated in 2011. This requires the Authority to determine affordable borrowing limits calculated in accordance with the Code.

5. Local Authority Investments and Annual Investment Strategy

5.1 Under Section 15 (1) (a) of the Local Government Act 2003, the Authority is required to have regard to Investment Guidance issued by the Secretary of State in respect of the investment of cash funds. Updated with effect from 1 April 2012 this Guidance on Local Government Investments requires an **Annual Investment Strategy (AIS)** to be approved by Members.

5.2 In terms of an **Annual Investment Strategy** for the National Park Authority, the current contractual arrangements with North Yorkshire County Council for the investment of surplus cash balances mean that the Authority can use the AIS adopted by the County Council on 24 February 2016. **As a result there is no need to adopt a separate document as part of the Annual Treasury Management report**.

5.3 A copy of the County Council's current AIS is available to members on request.

6. Annual Treasury Management Strategy 2016/17

6.1 One of the requirements of the CIPFA Code of Practice is that an annual Treasury Management Strategy is considered and approved for each financial year.

The Strategy attached as **Appendix** includes

- 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)**

The Treasurer will report to the Authority, if and when necessary during the year, on any changes to this Annual Strategy arising from the use of operational leasing or any other innovative methods of funding.

7. **Approved Lending List**

7.1 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 County Council's Treasury Management Practices (TMPs) and Treasury Management Policy Statement (TMPS) as covered by the contractual arrangements with the County Council.

7.2 Any changes to the approved Lending List are made by the Treasurer under delegated powers and reported to the County Council's Executive and to this Authority as part of the reporting arrangements in **paragraph 9.2.**

7.3 The Lending List of the County Council for the 2016/17 Treasury Management and Investment Strategy is detailed in the **Schedule** to the **Appendix** (Treasury Management Strategy Statement 2016/17).

7.4 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.

7.5 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 Capita's (the County 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 Capita. In addition the County 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.

7.6 Utilising the approach to the assessment of credit quality detailed in **paragraph 7.5**, the criteria and investment limits for specified investments (a maximum of 364 days) are:

- institutions which are substantially owned by the UK Government (Nationalised Banks) being limited to £85m
- other institutions achieving suitable credit scores and colour bonding being limited to a maximum investment limit of between £20m and £75m (actual duration and investment limit dependent on final colour/score)

7.7 The criteria for Non Specified Investments (for periods of more than 364 days) are investments over one year to a maximum of two years with institutions which have a suitable credit score, limited to £5m with any one institution, with an absolute maximum of £20m.

7.8 Local Authorities will continue to be included on the Approved Lending List for 2016/17, 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.

7.9 The information below details all the changes reflected in the latest Approved Lending List (Schedule A) compared with that submitted for 2015/16 in March 2015. Please note that the analysis below is between the version provided last year and the proposed list for 2016/17 – it is a snapshot at a point in time. It is therefore possible that there will be in year changes that are not identified in this snapshot.

(a) organisations included on the 2015/16 Approved Lending List which will NOT be included for 2016/17

Organisation	Reason
Ulster Bank Ltd	Due to fall in Credit Ratings

(b) organisations who continue to be included on the 2016/17 Approved Lending List, but whose Maximum Investment Duration will remain as nil until Credit Ratings and market sentiment improve

Organisation	Reason
Clydesdale Bank (Trading as the Yorkshire Bank)	Due to fall in Credit Ratings

(c) further changes were made during the year to increase and decrease the maximum investment term for some organisations. This was the result of market movements between the Credit Default Swap and iTraxx benchmark, an early warning of likely changes to credit ratings in the future;

8. Changes to Credit Methodology

8.1 Since the financial crisis, the main rating agencies (Fitch, Moody's and Standard & Poor's) have included an assumption, when assessing credit worthiness, that an institution would obtain support from Government should the institution fail, (i.e. implied levels of sovereign support). However, as part of a wider reassessment of methodologies, all three agencies have now begun removing these implied "uplifts" in credit quality and are now taking into account additional factors. In some cases, these factors have "netted" each other off, to leave underlying ratings either unchanged or little changed.

8.2 It is important to stress that the rating agency changes do not reflect any changes in the underlying status of the institution or credit environment, they are merely reflective of a reassessment of rating agency methodologies in light of changes to the regulatory environment.

8.5 As a result of these rating agency changes, the credit element of the creditworthiness methodology will focus solely on the Short and Long Term ratings of an institution. Rating Watch and Outlook information will continue to be assessed where it relates to these categories. Furthermore, the overlay of CDS prices to ratings will continue to be used.

9. Treasury Management Reporting and Scrutiny Arrangements

9.1 The CIPFA Code of Practice on Treasury Management reflects enhanced reporting and scrutiny arrangements in terms of:

(a) each authority must 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 outturn report after the end of the year.

(b) Treasury Management performance and policy setting should be subject to ongoing scrutiny each authority must delegate the role of scrutiny of treasury management strategy and policy to a specific named body.

9.2 These enhanced requirements have been incorporated into Financial Regulation 16 (regarding Treasury Management) with the current arrangements being as follows:-

(a) on reporting the full Authority will receive, after consideration by the Finance, Risk, Audit & Standards Committee

(i) an annual report that sets out the authority's Treasury Management Strategy, Policy and Prudential Indicator for the forthcoming financial year i.e. this report

(ii) an annual outturn report for both Treasury Management and Prudential Indicators setting out full details of activities and performance during the preceding year

(iii) a mid year report on Treasury Management matters including an update on Prudential Indicators

(b) on scrutiny the Authority nominated the Finance, Risk, Audit & Standards Committee to be responsible for ensuring effective scrutiny of the Treasury Management strategy, policies and day to day activities

11. Recommendations

11.1 That Members, as recommend by the Finance, Risk, Audit and Standards Committee on 1 February 2016:

(i) approve the Annual Treasury Management Strategy for 2016/17 as detailed in the **Appendix**, including the Prudential Indicators set out in Section 3, and the Minimum Revenue Provision policy set out in Section 9 of that Strategy.

(ii) adopt the Annual Investment Strategy agreed by the County Council for 2016/17.

(iii) approve the affordable borrowing limit of £603.3k for 2016/17, under section 3(i) of the Local Government Act 2003 as set out in Paragraph 3 (iv) of the **Appendix**.

(iv) confirm the delegation to the Treasurer, as agreed in previous years, for the following matters:-

(a) any need to effect changes between the separate agreed limits for borrowing and other long term liabilities (such as finance leases) in accordance with option appraisal, value for money or other relevant factors. This applies to the Prudential Indicators in paragraph 3(iv) and 3(v) of the **Appendix**.

(b) decisions to borrow from the PWLB and money markets at the most advantageous rate, as set out in Paragraph 6.3 of the **Appendix**.

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4 March 2016

Background papers to this Report **File ref**

1. CIPFA code of Practice on Treasury Management in the Public Services.
2. CIPFA Prudential Code for Capital Finance in local authorities

Appendix

NORTH YORK MOORS NATIONAL PARK AUTHORITY

TREASURY MANAGEMENT STRATEGY STATEMENT 2016/17

1. Introduction

1.1 This Treasury Management Strategy statement details the expected activities of the Treasury function in the financial year 2016/17. 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 2016/17 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 2016/17 to 2018/19

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 2016/17 to 2018/19

3.1 The proposed Prudential Indicators for the Authority for the 2016/17 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 2014/15 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	%
2014/15	actual	0.00
2015/16	probable	0.00
2016/17	estimate	0.00
2017/18	estimate	0.00
2018/19	estimate	0.27

(ii) **Capital Expenditure Plans (Actual and Estimated)**

The actual capital expenditure that was incurred by the Authority in 2014/15 and the estimates of capital expenditure to be incurred for 2015/16 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	
2014/15	actual	48.6	
2015/16	probable	140.0	
2016/17	estimate	175.0	
2017/18	estimate	125.0	Assumes all capital expenditure will be funded from borrowing rather than Grant or Revenue contributions
2018/19	estimate	125.0	

(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 2015	actual	0.00	178.5	178.5
31 March 2016	probable	0.00	178.4	178.4
31 March 2017	estimate	175.0	178.3	353.3
31 March 2018	estimate	281.0	178.2	459.2
31 March 2019	estimate	362.0	178.1	540.1

The above figures provide the option to allow the Authority to consider funding capital purchases by borrowing in 2016/17 (£175k), 2017/18 (£125k) and 2018/19 (£125k). 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 2017/18 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 Treasurer has delegated authority to effect any changes between the separately agreed limits for borrowing and other long term liabilities, in accordance with option appraisal, value for money and any other relevant factors.

The recommended Authorised limits for external debt are as follows:

Year	Borrowing Limit £k	Other Long Term Liabilities £k	Total £k
2015/16	250.0	178.4	428.5
2016/17	425.0	178.3	603.3
2017/18	531.0	178.2	709.2
2018/19	612.0	178.1	790.1

The Treasurer can confirm that the Authorised Limit is consistent with the Authority's current commitments and budget process.

Under **Section 3(1) of the Local Government Act 2003** the Authority must determine a Statutory Limit in terms of how much money it can afford to borrow. This affordable borrowing limit must be set for the following year. The Authorised limit of £603.3k will act as this limit for 2016/17.

(v) **Operational Boundary for External Debt**

This indicator is based on the probable external debt position during the course of the year. It is not a limit and actual borrowing could vary around this boundary during the year. The 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 Treasurer has delegated authority to make in year changes to the operational boundary and its sub categories.

Year	Borrowing Limit £k	Other Long Term Liabilities £k	Total £k
2015/16	0.0	178.4	0.0
2016/17	175.0	178.3	353.3
2017/18	281.0	178.2	459.2
2018/19	362.0	178.1	540.1

(vi) **Actual External Debt**

The Authority had no external debt at 31 March 2015. The position as at 31 March 2016 will depend on the decisions regarding the financing of vehicles and equipment throughout the year, although at this late stage of the financial year no external borrowing has been taken to date and none is envisaged by 31 March 2016. 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) **CIPFA Code Compliance**

The CIPFA Code of Practice on Treasury Management in the Public Services was last updated in November 2011 and adopted by the Authority on 26 March 2012.

(viii) **Interest Rate Exposures**

If the Authority were to borrow in 2016/17, it would follow the Borrowing Strategy set out in Section 8 of this document. Borrowing could be taken from the Public Works Loan Board (PWLB), the Government's lending agency to Local Authorities, from the money market, or from internal cash balances.

A decision required by officers would be whether to take the borrowing in the form of a fixed interest rate or a variable interest rate loan. This decision would be made based on the prevailing interest rate environment at the time. A fixed rate loan is usually considered less risky than a variable loan as it gives certainty for budget purposes and it is difficult to predict future interest rate changes. However if interest rates were predicted to decrease in the short term gains could be accrued through variable rate borrowing.

To allow flexibility this indicator sets an upper limit on fixed interest rate exposures for 2016/17, 2017/18 and 2018/19 of **100%** of the authority's net outstanding principal sums. In essence all borrowings could be taken at fixed rates if required.

This indicator sets an upper limit on variable interest rate exposure for the same period at **40%** of net outstanding principal sums. This is based on advice from the County Council and reflects the riskier nature of these types of loan.

The advice of the County Council's Treasury Management Advisers is that a maximum of 20% of cash balances is invested for periods of longer than 364 days. Since investments of under 365 days are classed as variable rates, this fixes the limit of **20%** on fixed interest rate exposure for investments

If the Authority does decide to borrow the Treasurer will manage fixed interest rate exposures within the range **100%** and variable interest rate exposures within the range **-100%.** This is a continuation of the Authority's current treasury management practice. The variable interest rate limit can be negative as investments under 365 days are classed as variable and are credit balances. Therefore due to the Authority currently not holding debt, the Authority could be exposed to 100% of its investment portfolio in investments under 365 days.

Borrowing	**%age of outstanding principal sums**
Limits on fixed interest rate exposures	60 to 100
Limits on variable interest rate exposures	0 to 40
Investing	
Limits on fixed interest rate exposures	0 to 30
Limits on variable interest rate exposures	70 to 100
Combined net borrowing/investment position	
Limits on fixed interest rate exposures	160 to 210
Limits on variable interest rate exposures	-60 to -110

(ix) **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 proceeding year, plus the estimate of any additional capital financing requirement for the current and next two financial years.

The Treasurer can confirm that the Authority has met this requirement up to 2014/15. Furthermore, no difficulties are anticipated for the period covered by this report to 2018/19.

(x) **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%

(xi) **Total Principal Sums Invested for Periods longer than 364 days**

In line with the County Council's policy and advice in this area, a prudential indicator of **20%** of the Authority's core cash balances is recommended for investments longer than 364 days.

A maximum of 20% of funds available for investment will be held in aggregate in "Non-Specified investments" over 364 days.

4. **The Current Treasury Position**

4.1 As at 31 December 2015, the Authority's Treasury position was as shown below

Item	Principal as at 31 December 2015 £k	Average return in 2015/16 to 31 December 2015 %
External Debt Outstanding		
None		
Investments		
Managed by NYCC	1,953.2*	0.64

* The figure above reflects the principal held as at 31 December 2015. The average daily balance from 1 April to 31 December 2015 was £2,084.5k

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 course of 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 2018/19 are as follows:

	Item	2015/16 estimate £k	2016/17 estimate £k	2017/18 estimate £k	2018/19 estimate £k
	Debt Outstanding at the start of the Year	0.0	0.0	175.0	281.0
+	Internal or External borrowing requirements	0.0	175.0	125.0	1250
-	MRP charged to revenue	0.0	0.0	-19.0	-44.0
+	Long Term Liabilities	178.4	178.3	178.2	178.1
=	**Operational Boundary for year**	178.4	353.3	459.2	540.1
+	**Provision to cover unusual cash movements**	250.0	250.0	250.0	250.0
=	**Authorised Limit for year**	**428.4**	**603.3**	**709.2**	**790.1**

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 Treasurer, on the recommendation of the County 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 Treasurer 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 and there are no current plans to do so. 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 is as follows:

(a) The Economy

- Since the start of 2016, the global economic data releases have been disappointing in the main. This has been fuelled by a weaker economic performance by China, a continuation of price pressures on commodities and oil in particular, and a re-pricing of credit risk in respect of major financial institutions.

- In February, the MPC opted once again to keep interest rates at 0.5%. All of the members of the MPC voted in favour of holding off a rate increase, as they felt weaker forecasted economic growth. In addition, the Bank of England said in its February Inflation Report that continued falls in oil and other commodity process mean that inflation is likely to remain lower than previously expected, below 1% through 2016, but the MPC's judgement remains that inflation will return to the 2% target in around two years and continue to rise thereafter. All of the members of the MPC agree that, given the persistent headwinds weighing on the economy, when Bank Rate does begin to rise, it is expected to do so more gradually and to a lower level than in recent cycles.

- Both the February Inflation Report and recent economic data are broadly in line with Bank of England Governor Carney's Queen Mary College speech, made in January, which definitively ruled out an increase in Bank Rate until the following three criteria had been met:

    1. Quarter-on-quarter GDP growth is above 0.6% i.e. using up spare capacity. This condition was met in June 2015, but September and December came up short.

    2. Core inflation (stripping out most of the effect of decreases in oil prices), registers a concerted increase towards the MPC's 2% target. This measure was on a steadily decreasing trend since mid-2014 until November 2015 at 1.2%. December 2015 saw a slight increase to 1.4%.

    3. Unit wage costs are on a significant increasing trend. This would imply that spare capacity for increases in employment and productivity gains are being exhausted, and that further economic growth will fuel inflationary pressures.

- On-going volatility in financial markets could dampen investment decision making as the private sector take a more cautious view of prospects in the coming years due to international risks. This could also impact via a slowdown in increases in employment. However, consumers will be enjoying the disposable incomes as a result of falling prices of fuel, food and other imports from emerging countries, so this could well feed through into an increase in consumer expenditure and demand in the UK economy.

- While the economic outlook for the US improved through much of 2014, 2015 saw something of a slowing in activity, especially through the latter stages of the year. While the domestic situation remains positive, underlying, and in some cases growing, international concerns are expected to see the Fed. hold back from previously expected levels of policy tightening.

- For the Eurozone the future remains tepid at best, in spite of ECB policy action. Progress within the currency bloc will continue to be hampered by a number of fundamental issues, not least stubbornly high unemployment, in all bar one or two countries.

- The actions of central bankers are likely to continue to be the key themes dominating market sentiment in the coming months. They have undertaken enormous support programmes in recent years, in an effort to stabilise the world economy. However, it is unlikely that can they be unwound without causing material market turbulence in the future – such as that seen in emerging markets in early 2014. While the US has already commenced minimising the levels of increased support, the full unwinding of policy support for major economies will take many years to accomplish.

(b) Capita Asset Services Forward View

- Economic forecasting remains difficult with so many external influences weighing on the UK. Our Bank Rate forecasts, (and also MPC decisions), will be liable to further amendment depending on how economic data evolves over time. Capita Asset Services undertook its last review of interest rate forecasts on 16 February 2016.

- The overall trend in the longer term will be for gilt yields and PWLB rates to rise when economic recovery is firmly established accompanied by rising inflation and consequent increases in Bank Rate, and the eventual unwinding of QE. Increasing investor confidence in eventual world economic recovery is also likely to compound this effect as recovery will encourage investors to switch from bonds to equities.

- The overall balance of risks to economic recovery in the UK is currently to the downside. Although economic recovery remains relatively steady, only time will tell whether some of the global headwinds sap some of the strength from the UKs future growth.

- Moreover, the overall balance of risks to our Bank Rate forecast is to the downside, i.e. the first increase, and subsequent increases, may be delayed further if recovery in GDP growth, and forecasts for inflation increases, are lower than currently expected.

- Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:
  - → Geopolitical risks in Eastern Europe, the Middle East and Asia, increasing safe haven flows.
  - → UK strong economic growth is weaker than we currently anticipate.
  - → Weak growth or recession in the UK's main trading partners - the EU, US and China.
  - → A resurgence of the Eurozone sovereign debt crisis.
  - → Recapitalisation of European banks requiring more government financial support.
  - → Emerging country economies, currencies and corporates destabilised by falling commodity prices and / or the start of Fed. rate increases, causing a flight to safe havens
  - → Monetary policy action failing to stimulate sustainable growth and combat the threat of deflation in western economies, especially the Eurozone and Japan.

- The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -
  - → Uncertainty around the risk of a UK exit from the EU

→ The pace and timing of increases in the central rate in 2016 causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities, leading to a sudden flight from bonds to equities.
→ UK inflation returning to significantly higher levels than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.

7.3 The County Council has appointed Capita Asset Services – Treasury Solutions 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:-

	Bank Rate	**PWLB Borrowing Rates (including 0.2% discount)**				**Short Term Investment Rates**	
		5 year	**10 year**	**25 year**	**50 year**	**3 Months**	**1 Year**
	%	**%**	**%**	**%**	**%**	**%**	**%**
Mar 2016	0.50	1.70	2.30	3.20	3.00	0.60	1.10
June 2016	0.50	1.90	2.40	3.20	3.00	0.80	1.30
Sept 2016	0.50	2.00	2.50	3.30	3.10	0.80	1.30
Dec 2016	0.50	2.10	2.60	3.30	3.10	1.00	1.50
Mar 2017	0.75	2.20	2.70	3.50	3.30	1.10	1.60
June 2017	0.75	2.30	2.80	3.50	3.30	1.30	1.80
Sept 2017	1.00	2.40	2.90	3.60	3.40	1.50	2.00
Dec 2017	1.00	2.60	3.00	3.60	3.40	1.60	2.10
Mar 2018	1.25	2.70	3.10	3.70	3.50	1.80	2.30
June 2018	1.25	2.80	3.30	3.70	3.60	1.90	2.40
Sept 2018	1.50	2.90	3.40	3.70	3.60	2.00	2.50
Dec 2018	1.50	3.00	3.50	3.80	3.70	2.10	2.60
Mar 2019	1.75	3.10	3.60	3.90	3.70	2.20	2.70

7.4 Thus based on **paragraphs 7.2 and 7.3** above

Bank Rate

- UK growth prospects remain strong looking forward into 2016 and 2017
- thus bank rate currently set at 0.5% underpins investment returns and is not expected to start increasing until around early 2017
- it is then expected to continue rising by further 0.25% increases reaching 1.50% by December 2018 (0.75% in March 2017 and 1.25% in March 2018)
- as economic forecasting remains difficult with so many external influences weighing on the UK, bank rate forecasts will be liable to further amendments depending on how economic data transpires in the future
- in addition there are significant potential risks from the Eurozone and from financial flows from emerging markets in particular so continuing caution must be exercised in respect of all interest rate forecasts at present

PWLB Rates

- fixed interest borrowing rates are based on UK gilt yields. The longer term trend is for gilt yields and PWLB rates to rise due to the higher volume of gilt issuance in the UK and the high volume of debt issuance in other major western countries
- the interest rate forecasts in this report represents a balance of downside and upside risks
- PWLB rates are seen to be on a rising trend with a forecast to rise gradually throughout the next three years in all periods as follows:-

Period	March 2016	March 2019	Increase
	%	%	%
5 years	1.70	3.10	+1.40
10 years	2.30	3.60	+1.30
25 years	3.20	3.90	+0.70
50 years	3.00	3.70	+0.70

Short Term Investment Rates

- investment returns are likely to remain relatively low during 2016/17 and beyond
- returns are expected to increase along with bank rate increases

- suggested returns on investments placed for periods up to 100 days are 1.00% in 2016/17, 1.75% in 2017/18 and 2.00% in 2018/19.

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 2016/17. Variable rate borrowing for PWLB loans for up to 10 years is expected to be cheaper than long term fixed rate borrowing and will, therefore, be attractive throughout the financial year compared to simply taking long term fixed rate borrowing.

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. Rates are expected to gradually increase during the year so it may therefore be advantageous to take any shorter period borrowing earlier in the year.

External -v- internal borrowing

8.3 2016/17 is expected to be one of continuing historically low bank rate certainly until later in the year, which provides an opportunity alternative to the borrowing strategy of external loans from the PWLB or money markets.

8.4 The Authority has cash balances. In 2015/16 there is a current daily average of£2.1m. 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 and it is anticipated that the financing of the Authority’s vehicles will be achieved in this way.

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.

8.8 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 weighted 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 significantly higher.

8.9 Against this background, the Treasurer 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

8.10 The main sensitivities of the forecast are likely to be the two scenarios below. The Treasurer will, in conjunction with the County 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 Moors 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 2016/17 as set out in **paragraph 9.7** below.

9.7 The policy for 2016/17 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)

10.1 The Treasury Management Contract with North Yorkshire County Council covers the day to day investment requirements of the Authority. The net return/cost achieved by the County Council officers will be closely monitored by the Treasurer.

10.2 Within the terms of the contract the County 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 County Council. A copy of the document is available for members on request. The information below outlines the strategy for investments.

10.3 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

(iv) 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 County Council's Treasury Management Practices Schedules

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

10.5 Ongoing discussions will be held with the County 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.

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

10.7 Various changes have been made to the Lending List of the County Council for the 2016/17 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**.

10.8 The Investment Counterparty Limits lending list for 2016/17, is divided between Specified and Non-Specified Investments. This is based on Government Guidance on Local Authority Investments which identifies investments as being either specified or non-specified.

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

Non-Specified Investments attract a greater potential for risk and are defined as being "those investments not meeting the definition of Specified Investments above".

11. Other Treasury Management Issues

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

KAREN IVESON
Treasurer to North York Moors National Park Authority
Central Services
County Hall
Northallerton
13 January 2014

SCHEDULE A

APPROVED LENDING LIST 2016/17

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	GBR	85.0	364 days	-	-
Natwest Bank	GBR				
Bank of Scotland	GBR	85.0	6 months	-	-
Lloyds	GBR				
UK "Clearing Banks", other UK based banks and Building Societies					
Santander UK plc (includes Cater Allen)	GBR	40.0	6 months	-	-
Barclays Bank	GBR	75.0	6 months	-	-
HSBC	GBR	30.0	364 days		
Clydesdale Bank (trading as Yorkshire Bank)	GBR	30.0 (Shared with NAB)	Temporarily suspended	-	-
Goldman Sachs International Bank	GBR	40.0	6 months		
Nationwide Building Society	GBR	40.0	6 months	-	-
Leeds Building Society	GBR	20.0	6 months	-	-
High quality Foreign Banks					
National Australia Bank	AUS	30.0 (Shared with Clydesdale)	364 days	-	-
Commonwealth Bank of Australia	AUS	20.0	364 days		
Canadian Imperial Bank of Commerce	CAN	20.0	364 days	-	-
Deutsche Bank	DEU	20.0	Temporarily suspended	-	-
Nordea Bank Finland	FIN	20.0	364 days	-	-
Credit Industriel et Commercial	FRA	20.0	364 days	-	-
BNP Paribas Fortis	FRA	20.0	6 months	-	-
Nordea Bank AB	SWE	20.0	364 days	-	-
Svenska Handelsbanken	SWE	40.0	364 days	-	-
Local Authorities					
County / Unitary / Metropolitan / District Councils		20.0	364 days	5.0	2 years
Police / Fire Authorities		20.0	364 days	5.0	2 years
National Park Authorities		20.0	364 days	5.0	2 years
Other Deposit Takers					
Money Market Funds		20.0	364 days	5.0	2 years
UK Debt Management Account		100.0	364 days	5.0	2 years

* Based on data as 8 January 2016

SCHEDULE B

NORTH YORK NATIONAL PARK AUTHORITY ANNUAL INVESTMENT STRATEGY 2016/17 SPECIFIED INVESTMENTS

Investment	**Security / Minimum Credit Rating**	**Circumstances of Use**
Term Deposits with the UK Government or with UK Local Authorities (as per Local Government Act 2003) with maturities up to 1 year	High security as backed by UK Government	In-house
Term Deposits with credit rated deposit takers (Banks and Building Societies), including callable deposits with maturities less than 1 year		In-house
Certificate of Deposits issued by credit rated deposit takers (Banks and Building Societies) up to 1 year	Organisations assessed as having "high credit quality" plus a minimum Sovereign rating of AA- for the country in which the organisation is domiciled	Fund Manager or In-house "buy and hold" after consultation with Treasury Management Advisor
Forward deals with credit rated Banks and Building Societies less than 1 year (i.e. negotiated deal plus period of deposit)		In-house
Money Market Funds i.e. collective investment scheme as defined in SI2004 No 534 (*These funds have no maturity date*)	Funds must be AAA rated	In-house After consultation with Treasury Management Advisor Limited to £20m
Gilts (with maturities of up to 1 year)	Government Backed	Fund Manager or In-house buy and hold after consultation with Treasury Management Advisor

Bonds issued by a financial institution that is guaranteed by the UK Government (as defined in SI 2004 No 534) with maturities under 12 months (*Custodial arrangements required prior to purchase*)		After consultation with Treasury Management Advisor

NORTH YORK NATIONAL PARK AUTHORITY INVESTMENT STRATEGY 2016/17 – NON-SPECIFIED INVESTMENTS

investment	A) Why use it? B) Associated Risks?	Security / Minimum Credit Rating	Circumstances of Use	Max % of overall investments or cash limits in cash category	Maximum investment with any one counterparty	Maximum Maturity Period
Term Deposit with credit rated deposit takers (Banks & Building Societies), UK Government and other Local Authorities with maturities greater than 1 year	A) Certainty of return over period invested which could be useful for budget purposes B) Not Liquid, cannot be traded or repaid prior to maturity Return will be lower if interest rates rise after making deposit Credit risk as potential for greater deterioration of credit quality over a longer period	Organisations assessed as having "high credit quality" Plus A minimum Sovereign rating of AA- for the country in which an organisation is domiciled	In-house	100% of agreed maximum proportion (20%) of core cash funds that can be invested for more than 1 year (estimated £20m)	£5m	2 years subject to potential future review with a maximum of no longer than 5 years
Certificate of Deposit with credit rated deposit takers (Banks & Building Societies) with maturities greater than 1 year *Custodial arrangements prior to purchase*	A) Attractive rates of return over period invested and in theory tradable B) Interest rate risk; the yield is subject to movement during life of CD which could negatively impact on its price		Fund Manager or In-house "buy & hold" after consultation with Treasury Management Advisor	25% of agreed proportion (20%) of core cash funds that can be invested for more than 1 year (£5m)	£3m	

SCHEDULE C

investment	A) Why use it? B) Associated Risks?	Security / Minimum Credit Rating	Circumstances of Use	Max % of overall investments or cash limits in cash category	Maximum investment with any one counterparty	Maximum Maturity Period
Callable Deposits with credit rated deposit takers (Banks & Building Societies) with maturities greater than 1 year	A) Enhanced Income – potentially higher return than using a term deposit with a similar maturity B) Not liquid – only borrower has the right to pay back the deposit; the lender does not have a similar call Period over which the investment will actually be held is not known at outset Interest rate risk; borrower will not pay back deposit if interest rates rise after the deposit is made		To be used in-house after consultation with Treasury Management Advisor	50% of agreed proportion (20%) of core cash balance that can be invested for more than 1 year (£12.5m)	£5m	
Forward Deposits with a credit rated Bank or Building Society > 1 year (i.e. negotiated deal period plus period of deposit)	A) Known rate of return over the period the monies are invested – aids forward planning B) Credit risk is over the whole period, not just when monies are invested Cannot renege on making the investment if credit quality falls or interest rates rise in the interim period	Organisations assessed as having "high credit quality" Plus A minimum Sovereign rating of AA- for the country in which an organisation is domiciled	To be used in-house after consultation with the Treasury Management Advisor	25% of greed proportion (20%) of core cash funds that can be invested for more than 1 year (£5m)	£3m	2 years subject to potential future review with a maximum of no longer than 5 years
Bonds issued by a financial	A) Excellent credit quality Relatively Liquid	AA or Government	In-house on a "buy and hold"		n/a	

investment	A) Why use it? B) Associated Risks?	Security / Minimum Credit Rating	Circumstances of Use	Max % of overall investments or cash limits in cash category	Maximum investment with any one counterparty	Maximum Maturity Period
institution that is guaranteed by the UK Government (as defined in SI2004 No534) with maturities in excess of 1 year Custodial arrangements required prior to purchase	If held to maturity, yield is known in advance Enhanced rate in comparisons to gilts B) Interest rate risk; yield subject to movement during life off bond which could impact on price	backed	basis after consultation with Treasury Management Advisor or use by Fund Managers			
Bonds issued by Multilateral development banks (as defined in SI2004 No534) with maturities in excess of 1 year Custodial arrangements required prior to purchase	A) Excellent credit quality Relatively Liquid If held to maturity, yield is known in advance Enhanced rate in comparison to gilts B) Interest rate risk; yield subject to movement during life off bond which could negatively impact on price				£3m	
UK Government Gilts with maturities in excess of 1 year Custodial arrangements required prior to purchase	A) Excellent credit quality Liquid If held to maturity, yield is known in advance If traded, potential for capital appreciation B) Interest rate risk; yield subject to	Government backed	Fund Manager	25% of greed proportion (20%) of core cash funds that can be invested for more than 1 year (£5m)	n/a	2 years subject to potential future review with a maximum of no

investment	A) **Why use it?** B) **Associated Risks?**	**Security / Minimum Credit Rating**	**Circumstances of Use**	**Max % of overall investments or cash limits in cash category**	**Maximum investment with any one counterparty**	**Maximum Maturity Period**
	movement during life if the bond which could impact on price					longer than 5 years
Collateralised Deposit	A) Excellent credit quality B) Not liquid, cannot be traded or repaid prior to maturity Credit risk as potential for greater deterioration of credit quality over a longer period	Backed by collateral of AAA rated Local Authority LOBO's	In-house via money market broker or direct	100% of agreed proportion (20%) of core cash funds that can be invested for more than 1 year (£20m)	£5m	