

North York Moors National Park Authority

19 March 2018

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 2018/19, and Prudential Indicators for the financial years 2017/18 – 2020/21.

2. Background

- 2.1 The Authority is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Cash balances are then invested in low risk counterparties or instruments commensurate with the NPA's risk appetite, providing adequate liquidity initially before considering investment return.

- 2.2 CIPFA defines Treasury Management as:

“the Management of the Authority's borrowing, 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.”

'Investments' in the definition above covers all the financial assets of the organisation, as well as other non-financial assets which the organisation holds primarily for financial returns.

- 2.3 Members will be aware that each February the Finance, Risk, Audit and Standards Committee considers a report on Treasury Management and the Prudential Code Indicators for borrowing. The function of Treasury Management is undertaken for the Authority by North Yorkshire County Council via a service level agreement.
- 2.4 In terms of 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 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.
- 2.5 The second main function of the treasury management function is the funding of the Authority's capital plans. As at February 2018, 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 the this report are based on the latest capital expenditure forecasts and therefore establish the 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.

2.6 The Authority is required to

- (a) approve an **Annual Treasury Management Strategy (ATMS)** for 2018/19;
- (b) approve an **Annual Investment Strategy (AIS)** for 2018/19;
- (c) approve a **Minimum Revenue Provision Policy (MRP)** for 2018/19;
- (d) approve a **Capital Strategy** for 2018/19; and
- (e) approve an updated set of **Prudential Indicators (PI's)** for the period 2018/19 to 2020/21.

2.7 In doing so, the Authority must have regard to the following guidance, both of which were reviewed in December 2017:

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

2.8 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.

2.9 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.

2.10 This report is required to obtain formal approval prior to the 1st April 2018.

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 of the Code of Practice, 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 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. Treasury Management Strategy

- 4.1 Prudential Indicators are a number of key indicators, which are set to ensure the Authority operates its activities within well-defined limits. These limits include the Authority's "Authorised Limit for External Debt" is £428.1k for 2018/19, which is the maximum that can be borrowed in the year. The Authority's "Operational Boundary" is £178.1k, which is the maximum amount expected to be borrowed if a decision is made to fund capital expenditure through external borrowing. The Prudential Indicators also include:
- (a) A borrowing limit on fixed interest rate exposures of 60% to 100%
 - (b) A limit on variable interest rate exposures of 0% to 40%
 - (c) Borrowing from the money market limited to 30% of external debt outstanding at any one point in time
 - (d) An investment limit on fixed interest rate exposure of 0% to 30%
 - (e) A limit on variable interest rate exposure of 70% to 100% of outstanding principal sums

5. **Long Term Debt Position**

- 5.1 The Authority has no external debt in place. The external debt position in future will depend on decision made regarding the financing of future capital expenditure plans.

6. **Minimum Revenue Provision (MRP) Policy**

- 6.1 The Authority is required to determine the amount of MRP it considers prudent for each financial year. The MRP Policy is based on the Government's statutory guidance and following a review of this policy, no changes are proposed at this time.

7. **Annual Investment Strategy**

- 7.1 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 which will be adopted by the County Council on 21 February 2018. **As a result there is no need to adopt a separate document as part of the Annual Treasury Management report.**

- 7.2 A summary of the Annual Investment Strategy is included in the Treasury Management Strategy Statements (**Appendix B**). However, a copy of the County Council's current AIS is available to members on request.

8. **Annual Treasury Management Strategy 2018/19**

- 8.1 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 B** 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.

9. **Approved Lending List**

- 9.1 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.

- 9.2 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.
- 9.3 The Lending List of the County Council for the 2018/19 Treasury Management and Investment Strategy is detailed in **Schedule A to Appendix B** (Treasury Management Strategy Statement 2018/19).
- 9.4 The information below details all the changes reflected in the latest Approved Lending List (**Schedule A**) compared with that submitted for 2017/18 in March 2017. Please note that the analysis below is between the version provided last year and the proposed list for 2018/19 – 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 2017/18 Approved Lending List which will NOT be included for 2018/19

Organisation	Reason
Clydesdale Bank (trading as Yorkshire Bank)	Due to continued low credit ratings
Nordea Bank Finland	Now wholly owned within Nordea Bank AB

- (b) organisations who continue to be included on the 2018/19 Approved Lending List, but whose Maximum Investment Duration will remain as nil until Credit Ratings and market sentiment improve

Organisation	Reason
Deutsche Bank	Due to fall in credit rating

- (c) organisations added to the Approved Lending List during 2018/19

Organisation	Reason
None	

- (d) 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;

10. Specified and Non-Specified Investments

- 10.1 The Authority may use various financial instruments for the prudent management of its treasury balances. These are set out in the list of Specified and Non-Specified Investments (**Schedule B of Appendix B**).
- 10.2 Investment rates available continue to remain at relatively low levels as a result of the historically low Bank Rate. However, investment returns are consistent with other comparable authorities. In order to ensure investment returns are maximised, while maintaining the appropriate level of security and liquidity of funds, alternative options are continually monitored and reviewed.
- 10.3 North Yorkshire County Council have included a range of alternative investment options, including Certificates of Deposit, Bonds and UK Government Gilts within its investment strategy in order to improve returns over the coming year. However, the extent to which these are likely to have a material impact on returns for the Authority are limited, given the Business Plan intention to spend earmarked reserves.

However, Treasury Management staff will continue to manage the authority's cash to meet strategy objectives and value for money overall.

- 10.4 Alternative investment options are continually monitored and reviewed and Treasury Management staff continue to investigate further investment options to assess whether they meet the Authority's investment priorities and criteria list.
- 10.5 As part of the monitoring and review of investment options, Property Funds have been identified as a potential instrument for investment following discussions with the County Councils Treasury Management consultants. Property Funds are pooled investment vehicles investing in commercial property. As a result, Property Funds have been added to the schedule of Non Specified Investments at **Schedule B of Appendix B**. In order to extend investments to Property Funds, the maximum duration of Non-Specified Investments has increased from 2 years to 5 years. In addition, the total investment limit for Non-Specified Investments has increased from £20m to £40m. Appropriate due diligence will be undertaken before an investment of this type is undertaken. **The County Council will also consult with this Authority and all external authorities for whom it provides a Treasury Management service prior to any investment**

11. Capital Strategy

- 11.1 In December 2017, CIPFA issued a revised Treasury Management Code of Practice and Prudential Code. The revised Codes require all authorities to produce a Capital Strategy. The Capital Strategy provides a high level overview of how capital expenditure, capital financing and treasury management contribute to the provision of services objectives and takes account of stewardship, value for money, prudence, sustainability and affordability. As a result, a Capital Strategy is now included as **Appendix C** to this report.
- 11.2 Where authorities are considering non-core, alternative investment options that are classed as capital expenditure, rather than traditional treasury management investments, the Capital Strategy should provide a projection of how capital expenditure plans impact on capital borrowing and repayment plans.
- 11.3 The authority's capital expenditure plans do not currently include any non-core investments.

12. Treasury Management Reporting and Scrutiny Arrangements

- 12.1 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.
- 12.2 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

13. Recommendations

13.1 That Members recommend at the meeting on 19 March 2018 to:

- (i) approve the Annual Treasury Management Strategy for 2018/19 as detailed in **Appendix B**, 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 2018/19.
- (iii) approve the authorised borrowing limit of £428.1k for 2018/19, under section 3(i) of the Local Government Act 2003 as set out in **Appendix B**.
- (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 **Appendix B**.
 - (b) decisions to borrow from the PWLB and money markets at the most advantageous rate, as set out in **Appendix B**.
- (v) approve the Capital Strategy as set out in **Appendix C**.

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 22 January 2018

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

NORTH YORK MOORS NATIONAL PARK AUTHORITY

TREASURY MANAGEMENT POLICY STATEMENT

1.0 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.

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

3.0 **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 County Council the Authority has adopted the Treasury Management Practices used by North Yorkshire County Council to govern the Treasury Management activities of the Authority. A copy of the North Yorkshire County Council Treasury Management Practices is available on request.

4.0 **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.

5.0 **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 County Council covers the day to day investment requirements of the Authority. The net return/cost achieved by the County Council will be closely monitored by the Treasurer.

- 5.3 The Authority's day to day investments are managed as part of an overall investment pool operated by North Yorkshire County Council. In order to facilitate the pooling of investments with the County Council, the Authority's Annual Investment Strategy has been adopted by the Authority.
- 5.4 The County Council will approve this combined Annual Strategy alongside the annual Revenue Budget/Medium Term Financial Strategy at its February meeting each year.

NORTH YORK MOORS NATIONAL PARK AUTHORITY

TREASURY MANAGEMENT STRATEGY STATEMENT 2018/19

1. Introduction

- 1.1 This Treasury Management Strategy statement details the expected activities of the Treasury function in the financial year 2018/19. 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 2018/19 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 2018/19 to 2020/21

- 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 2018/19 to 2020/21

3.1 The proposed Prudential Indicators for the Authority for the 2018/19 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 2016/17 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	%
2016/17	actual	0.00
2017/18	probable	0.00
2018/19	estimate	0.00
2019/20	estimate	0.00
2020/21	estimate	0.00

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

The actual capital expenditure that was incurred by the Authority in 2016/17 and the estimates of capital expenditure to be incurred for 2017/18 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	
2016/17	actual	294.0	
2017/18	probable	180.0	
2018/19	estimate	410.0	} Assumes all capital expenditure will be funded from borrowing rather than Grant or Revenue contributions
2019/20	estimate	860.0	
2020/21	estimate	555.0	

(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 2017	actual	0.0	178.3	178.3
31 March 2018	probable	0.0	178.2	178.2
31 March 2019	estimate	0.0	178.1	178.1
31 March 2020	estimate	140.0	177.9	317.9
31 March 2021	estimate	634.4	177.7	812.1

The above figures provide the option to allow the Authority to consider funding capital purchases by borrowing in 2019/20 (£140k) and 2020/21 (£500k). 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 2020/21 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
2017/18	250.0	178.2	428.2
2018/19	250.0	178.1	428.1
2019/20	390.0	177.9	567.9
2020/21	884.4	177.7	1,062.1

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 £428.1k will act as this limit for 2018/19.

(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
2017/18	0.0	178.2	178.2
2018/19	0.0	178.1	178.1
2019/20	140.0	177.9	317.9
2020/21	634.4	177.7	812.1

(vi) **Actual External Debt**

The Authority had no external debt at 31 March 2017. The position as at 31 March 2017 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 2018. 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 Treasurer can confirm that the Authority has met this requirement up to 2016/17. Furthermore, no difficulties are anticipated for the period covered by this report to 2020/21.

(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%
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 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 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 2017, the Authority's Treasury position was as shown below

Item	Principal as at 31 December 2017 £k	Average return in 2017/18 to 31 December 2017 %
External Debt Outstanding		
None		
Investments		
Managed by NYCC	2,682*	0.47

* The figure above reflects the principal held as at 31 December 2017. The average daily balance from 1 April to 31 December 2017 was £3,265k.

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 2020/21 are as follows:

Item	2017/18 estimate £k	2018/19 estimate £k	2019/20 estimate £k	2020/21 estimate £k
Debt Outstanding at the start of the Year	0.0	0.0	0.0	140.0
+ Internal or External borrowing requirements	0.0	0.0	140.0	500.0
- MRP charged to revenue	0.0	0.0	0.0	-5.6
+ Long Term Liabilities	178.2	178.1	177.9	177.7
= Operational Boundary for year	178.2	178.1	317.9	812.1
+ Provision to cover unusual cash movements	250.0	250.0	250.0	250.0
= Authorised Limit for year	428.2	428.1	567.9	1,062.1

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 UK Economy

- After the UK surprised with strong economic growth in 2016, growth in 2017 has been disappointingly weak. The main reason for this has been the sharp increase in inflation, caused by the devaluation of sterling after the EU referendum, feeding increases in the cost of imports into the economy. This has caused, in turn, a reduction in consumer disposable income and spending power. However, more recently there have been encouraging statistics from the manufacturing sector, which is seeing strong growth, particularly as a result of increased demand for exports.
- The Bank of England Monetary Policy Committee (MPC) in September 2017 switched to a much more aggressive tone in terms of its words around warning that Bank Rate will need to rise soon following revised inflation forecasts. The focus of the Bank of England was on an emerging view that with unemployment having already fallen to only 4.3%, the lowest level since 1975, and improvements in productivity being so weak, that the amount of spare capacity in the economy was significantly diminishing towards a point at which they now needed to take action. In addition, the MPC took a more tolerant view of low wage inflation as this now looks like a common factor in nearly all western economies as a result of automation and globalisation.
- At Its 2 November meeting, the MPC delivered a 0.25% increase in Bank Rate. It also gave forward guidance that they expected to increase Bank Rate only twice more in the next three years to reach 1.0% by 2020.
- However, some forecasters are flagging up that they expect growth to accelerate significantly towards the end of 2017 and then into 2018. This view is based primarily on the coming fall in inflation, (as the effect of the effective devaluation of sterling after the EU referendum drops out of the CPI statistics), which will bring to an end the negative impact on consumer spending power. If this scenario was to materialise, then the MPC would be likely to accelerate its pace of increases in Bank Rate during 2018 and onwards.
- One key area of risk to the economy is that consumers may have become used to cheap rates since 2008 for borrowing, especially for mortgages. It is a major concern that some consumers may have over extended their borrowing and have become complacent about interest rates going up. This is why forward guidance from the Bank of England continues to emphasise slow and gradual increases in Bank Rate in the coming years. However, consumer borrowing is a particularly vulnerable area in terms of the Monetary Policy Committee getting the pace and strength of Bank Rate increases right - without causing a sudden shock to consumer demand, confidence and thereby to the pace of economic growth.
- Moreover, while there is so much uncertainty around the Brexit negotiations, consumer confidence, and business confidence to spend on investing, it is difficult to predict with any certainty how the economy will perform over the next two to three years.

(b) Global Economy

- **Global Outlook.** World growth looks to be on an encouraging trend of stronger performance, rising earnings and falling levels of unemployment - inflation prospects are also generally muted. This has led to speculation that there appears to have been a fundamental shift in the correlation between levels of unemployment and inflation, which could be a result of a combination of a shift towards flexible working, self-employment, a reduction in union power and increasing globalisation. In addition, technology is probably also exerting downward pressure on wage rates and this is likely to grow with an accelerating movement towards automation.
- **Central Bank Policy.** Looking back on nearly ten years since the financial crash of 2008 when liquidity suddenly dried up in financial markets, it can be assessed that central banks' monetary policy measures to counter the sharp world recession were successful. The key monetary policy measures Central Banks used in reaction to the 2008 financial crash were a combination of lowering central interest rates and Quantitative Easing (QE). The key issue now is that the period of stimulating economic recovery and warding off the threat of deflation is coming to an end and will now shift to reversing those measures i.e. by raising central rates and reducing central banks' holdings of government and other debt. These measures are now required in order to stop the trend of an on-going reduction in spare capacity in the economy, and of unemployment falling to such low levels that the re-emergence of inflation is viewed as a major risk. It is, therefore, crucial that central banks do not cause shocks to market expectations that could destabilise financial markets. The potential for central banks to get this timing and strength of action wrong are now key risks. There is also a potential key question over whether economic growth has become too dependent on strong central bank stimulus and whether it will maintain its momentum against a backdrop of rising interest rates and the reversal of QE.
- **European Union (EU).** Economic growth in the eurozone had been lack lustre for several years after the financial crisis despite the ECB eventually cutting its main rate to -0.4% and embarking on a significant programme of QE. However, growth picked up in 2016 and has now gathered strength and momentum. However, despite providing monetary stimulus, inflation has not reached the 2% target and is unlikely to start rising until possibly 2019. The ECB has, however, announced that it will slow down its monthly QE purchases of debt from January 2018 and continue to at least September 2018.
- **USA.** Growth in the American economy was notably erratic and volatile in 2015 and 2016 and 2017 has followed that path. Unemployment in the US has fallen to the lowest level for many years, reaching 4.1%, while wage inflation pressures, and inflationary pressures in general, have been building. The Fed has started on a gradual increase in interest rates throughout 2016 and 2017, with further increases in 2018 expected. At its September meeting, the Fed said it would start in October to gradually unwind Quantitative Easing (QE) position.
- **Asia.** Economic growth in China has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, as well as to address the level of non-performing loans in the banking and credit systems. Japan has been struggling to stimulate consistent significant growth and to get inflation

up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

(c) Link Asset Services Forward View

- Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts, (and MPC decisions), will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments
- The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. It has long been expected that at some point, there would be a start to a switch back from bonds to equities after a historic long term trend over about the last twenty five years of falling bond yields. The action of central banks since the financial crash of 2008, in implementing substantial quantitative easing purchases of bonds, added further impetus to this downward trend in bond yields and rising prices of bonds. Quantitative Easing has also directly led to a rise in equity values as investors searched for higher returns and took on riskier assets. The sharp rise in bond yields since the US Presidential election in November 2016 has called into question whether the previous trend may go into reverse, especially now the Fed. has taken the lead in reversing monetary policy by starting, in October 2017, a policy of not fully reinvesting proceeds from bonds that it holds when they mature.
- Until 2015, monetary policy was focused on providing stimulus to economic growth but has since started to refocus on countering the threat of rising inflationary pressures as stronger economic growth becomes more firmly established.
- From time to time, gilt yields – and therefore PWLB rates - can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis and emerging market developments. Such volatility could occur at any time during the forecast period.
- The overall balance of risks to economic recovery in the UK is to the downside, particularly in view of the current uncertainty over the final terms of Brexit and the timetable for its implementation.
- Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:
 - Bank of England monetary policy takes action too quickly over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate;
 - Geopolitical risks, especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows;
 - A resurgence of the Eurozone sovereign debt crisis;
 - Weak capitalisation of some European banks;
 - Rising global protectionism;
 - A slowdown in progress on EU integration and centralisation of EU policy. This, in turn, impact the Euro, EU financial policy and financial markets; and
 - A sharp Chinese downturn and its impact on emerging market countries.

- The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -
 - The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflation pressures to build up too strongly within the UK economy;
 - UK inflation returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields; and
 - The Fed causing a sudden shock in financial markets through misjudging the pace and strength of increases in its Fed. Funds Rate and in the pace and strength of reversal of Quantitative Easing.

7.3 The County 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:-

	Bank Rate	PWLB Borrowing Rates (including 0.2% discount (para. 6.3))				Short Term Investment Rates	
		5 year	10 year	25 year	50 year	3 Months	1 Year
	%	%	%	%	%	%	%
Mar 2018	0.50	1.60	2.20	2.90	2.60	0.40	0.80
June 2018	0.50	1.60	2.30	3.00	2.70	0.40	0.80
Sept 2018	0.50	1.70	2.40	3.00	2.80	0.40	0.90
Dec 2018	0.75	1.80	2.40	3.10	2.90	0.60	1.00
Mar 2019	0.75	1.80	2.50	3.10	2.90	0.60	1.00
June 2019	0.75	1.90	2.60	3.20	3.00	0.60	1.10
Sept 2019	0.75	1.90	2.60	3.20	3.00	0.70	1.10
Dec 2019	1.00	2.00	2.70	3.30	3.10	0.90	1.30
Mar 2020	1.00	2.10	2.70	3.40	3.20	0.90	1.30
June 2020	1.00	2.10	2.80	3.50	3.30	1.00	1.40
Sep 2020	1.25	2.20	2.90	3.50	3.30	1.20	1.50
Dec 2020	1.25	2.30	2.90	3.60	3.40	1.20	1.50
Mar 2021	1.25	2.30	3.00	3.60	3.40	1.20	1.60

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

Bank Rate

- the bank rate increased to 0.5% in November and underpins investment returns. Investment returns are expected to rise gently over the next 3 years
- 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 market in particular so continuing caution must be exercised in respect of all interest rate forecasts at present

PWLB Rates

- fixed interest PWLB borrowing rates are based on UK gilt yields
- the overall longer run trend for gilt yields and PWLB rates is to rise due to the high volume of gilt issuance in the UK and of bond issuance in other major Western countries. Over time, an increase in investors' confidence in world economic recovery is also likely to compound this effect as recovery will further encourage investors to switch from bonds to equities
- there are however a number of downside and upside risks to UK gilt yields and PWLB rates, especially for longer term PWLB rates
- 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 2018	March 2021	Increase
	%	%	%
5 years	1.60	2.30	+ 0.70
10 years	2.20	3.00	+ 0.80
25 years	2.90	3.60	+ 0.70
50 years	2.60	3.40	+ 0.80

Short Term Investment Rates

- investment returns are likely to remain relatively low during 2018/19 and beyond
- returns are expected to increase along with bank rate increases
- suggested returns on investments placed for periods up to 100 days are 0.60% in 2018/19, 0.90% in 2019/20 and 1.25% in 2020/21

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 2018/19. 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 2018/19 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 2017/18 there is a current daily average of £3.3m. 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.
- 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 2018/19 as set out in **paragraph 9.7** below.

- 9.7 The policy for 2018/19 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 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.
- 10.3 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.
- 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
- (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.

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.

Specified and Non-Specified Investments

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:

- (a) 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;
- (b) **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 County Council's Treasury Management Practices (TMPs) and Treasury Management Policy Statement (TMPS) as covered by the contractual arrangements with the County Council.
- 10.10 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.
- 10.11 The Lending List of the County Council for the 2018/19 Treasury Management and Investment Strategy is detailed in **Schedule A** to **Appendix B** (Treasury Management Strategy Statement 2018/19).
- 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 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 Link. 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.

- 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 £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)
- 10.15 Local Authorities will continue to be included on the Approved Lending List for 2018/19, 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 County Council manages its cash balances internally, including those of this Authority.
- 10.17 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.
- 10.18 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.
- 10.19 Various changes have been made to the Lending List of the County Council for the 2018/19 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 Treasurer 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 Treasurer 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.

KAREN IVESON
Treasurer to North York Moors National Park Authority
Central Services
County Hall
Northallerton
22 January 2018

SCHEDULE A

APPROVED LENDING LIST 2018/19

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	75.0	364 days	-	-
Natwest Bank	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	-	-
Bank of Scotland	GBR	75.0	364 days	-	-
Lloyds	GBR				
HSBC	GBR	30.0	364 days		
Goldman Sachs International Bank	GBR	40.0	6 months		
Standard Chartered Bank	GBR	40.0	6 months	-	-
Nationwide Building Society	GBR	40.0	6 months	-	-
Leeds Building Society	GBR	20.0	3 months		
High quality Foreign Banks					
National Australia Bank	AUS	20.0	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	-	-
Credit Industriel et Commercial	FRA	20.0	6 months	-	-
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

NORTH YORK NATIONAL PARK AUTHORITY ANNUAL INVESTMENT STRATEGY 2018/19 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	Organisations assessed as having “high credit quality” plus a minimum Sovereign rating of AA- for the country in which the organisation is domiciled	In-house
Certificate of Deposits issued by credit rated deposit takers (Banks and Building Societies) up to 1 year		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 <i>(These funds have no maturity date)</i>	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 <i>(Custodial arrangements required prior to purchase)</i>		After consultation with Treasury Management Advisor

NORTH YORK MOORS NATIONAL PARK AUTHORITY INVESTMENT STRATEGY 2018/19 – 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 Where non UK domiciled - 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 <i>Custodial arrangements prior to purchase</i>	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 can be invested for more than 1 yr (£5m)	£3m	
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		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 yr (£12.5m)	£5m	

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
	deposit is made					
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		£3m	2 years subject to potential future review with a maximum of no longer than 5 years
Bonds issued by a financial institution that is guaranteed by the UK Government (as defined in SI2004 No534) with maturities in excess of 1 year <small>Custodial arrangements required prior to purchase</small>	A) Excellent credit quality Relatively Liquid 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	AA or Government backed	In-house on a “buy and hold” basis after consultation with Treasury Management Advisor or use by Fund Managers	25% of greed proportion (20%) of core cash funds that can be invested for more than 1 year (£5m)	n/a	
Bonds issued by Multilateral development banks (as defined in SI2004 No534) with maturities in excess of 1 year	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				£3m	

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
Custodial arrangements required prior to purchase	movement during life off bond which could negatively impact on price					
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 movement during life if the bond which could impact on price	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 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	
Property Funds	A) Attractive rates of return over period invested and in theory very liquid B) Period over which the investment will actually be held is not known at outset Credit risk as potential for greater deterioration of credit quality over a longer period	Organisations assessed as having "high credit quality"	To be used in-house after consultation with the Treasury Management Advisor	100% of agreed proportion (20%) of core cash funds that can be invested for more than 1 year (£20m)	£5m	5 years subject to potential future review with a maximum of 10 years

NORTH YORK MOORS NATIONAL PARK AUTHORITY

CAPITAL STRATEGY

1.0 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 Financial Officer's statement (Section 5)

This section contains the Chief Financial Officer's views on the deliverability, affordability and risk associated with the capital strategy

2.0 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:

- (a) **Capital grants and contributions** - amounts awarded to the Authority in return for past or future compliance with certain stipulations.
- (b) **Capital receipts** – amounts generated from the sale of assets and from the repayment of capital loans, grants or other financial assistance.
- (c) **Revenue contributions** – amounts set aside from the revenue budget in the Reserve for Future Capital Funding.
- (d) **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.

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

3.0 Capital Financing Requirement and Borrowing

Context

- 3.1 The County 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 2016/17, and the estimates for 2017/18 through to 2020/21, 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 2016/17 and forward projections for the current and forthcoming years are as follows:

Item	2016/17 Actual £000	2017/18 Probabl e £000	2018/19 Estimat e £000	2019/20 Estimate £000	2020/21 Estimate £000
Capital Borrowing	0.0	0.0	0.0	140.0	634.4
Other Long Term Liabilities	178.3	178.2	178.1	177.9	177.7
Total Capital Financing Requirement	178.3	178.2	178.1	317.9	812.1

- 3.7 The forecast increase in the CFR shown in the table above is based on the assumption that capital expenditure is funded from borrowing in 2019/20 and 2020/21. The assumption that expenditure will be funded from borrowing does not commit the Authority to using this source of finance.
- 3.8 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

- 3.9 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.
- 3.10 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.
- 3.11 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

- 3.12 The Authority's Borrowing Strategy is set out in **Appendix B Section 8**.
- 3.13 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
- 3.14 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

- 3.15 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.
- 3.16 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.
- 3.17 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**.

4.0. Alternative Investments

Introduction

- 4.1 The prolonged low interest rate environment has resulted in reduced returns on treasury management investments. Moreover, 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 CIPFA recently issued an update to its Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes (the Treasury Management Code). One of the main changes introduced by the new Code is to require 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 Communities and Local Government has recently consulted on changes to its statutory Guidance on Local Authority Investments. At the time of writing this strategy, the revised statutory guidance had not been issued, but it is expected that the guidance will reinforce the need for commercial investment activity to be included in the annual Capital Strategy.
- 4.4 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.
- 4.5 The Authority currently has no plans in place regarding alternative investments.

5.0 Section 151 Officer Statement

Background

- 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 Financial Officer to report explicitly on the affordability and risk associated with the Capital Strategy. The following are specific responsibilities of the Section 151 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