Item 8

North York Moors National Park Authority

6 February 2017

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 2017/18, and Prudential Indicators for the financial years 2017/18 – 2019/20.

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 County Council's risk appetite, providing adequate liquidity initially before considering investment return.

2.2 CIPFA defines Treasury Management as:

> "the Management of the Authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with these activities and the pursuit of optimum performance consistent with those risks."

2.3 Members will be aware that each February the Finance, Risk 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 the end of February 2017, 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 2017/18;

(b) approve an **Annual Investment Strategy (AIS)** for 2017/18;

(c) approve a **Minimum Revenue Provision Policy (MRP)** for 2017/18; and

(d) approve an updated set of **Prudential Indicators (PI's)** for the period 2017/18 to 2019/20.

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

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

2.8 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 1 April 2017.

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 £688.2k for 2017/18, which is the maximum that can be borrowed in the year. The Authority's "Operational Boundary" is £435.2k, 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 15 February 2017. **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 2017/18**

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 2017/18 Treasury Management and Investment Strategy is detailed in **Schedule A** to **Appendix B** (Treasury Management Strategy Statement 2017/18).

9.4 The information below details all the changes reflected in the latest Approved Lending List (**Schedule A**) compared with that submitted for 2016/17 in March 2016. Please note that the analysis below is between the version provided last year and the proposed list for 2017/18 – 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 2016/17 Approved Lending List which will NOT be included for 2017/18

Organisation	**Reason**
None	

(b) organisations who continue to be included on the 2017/18 Approved Lending List, but whose Maximum Investment Duration will remain as nil until Credit Ratings and market sentiment improve

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

(c) organisations added to the Approved Lending List during 2017/18

Organisation	**Reason**
Standard Chartered	Increase diversity of portfolio

(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 In addition to the types of investment set out in **Schedule B of Appendix A**, Treasury Management staff are currently investigating a number of alternative options, not currently included within the current list of Specified and Non-Specified Investments, in order to assess whether they meet the Authority's investment priorities and criteria list. The investment options currently under investigation include, but are not limited to, Enhanced Money Market Fund, Property Funds and Corporate Bonds.

11. Treasury Management Reporting and Scrutiny Arrangements

11.1 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.

11.2 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

12. **Recommendations**

12.1 That Members recommend to the Authority at its meeting on 21 March 2017 to:

(i) approve the Annual Treasury Management Strategy for 2017/18 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 2017/18.

(iii) approve the authorised borrowing limit of £688.2k for 2017/18, 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**.

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1 February 2017

Background papers to this Report

File ref

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

Appendix A

NORTH YORK MOORS NATIONAL PARK AUTHORITY

TREASURY MANAGEMENT POLICY STATEMENT

1. BACKGROUND

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

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

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

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

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

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

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

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

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

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

2. TREASURY MANAGEMENT POLICY STATEMENT (TMPS)

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

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

(a) the management of the Authority's investments and cash flows, its banking, money market and capital market transactions, the effective control of the risks associated with those activities, and the pursuit of optimum performance consistent with those risks;

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

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

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

3. TREASURY MANAGEMENT PRACTICES (TMPs)

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

3.2 As the Treasury Management activities of the Authority are undertaken by North Yorkshire 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. PRUDENTIAL INDICATORS

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

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

5. ANNUAL TREASURY MANAGEMENT AND INVESTMENT STRATEGY

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

5.2 The Treasury Management contract with North Yorkshire 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.

Appendix B

NORTH YORK MOORS NATIONAL PARK AUTHORITY

TREASURY MANAGEMENT STRATEGY STATEMENT 2017/18

1. **Introduction**

1.1 This Treasury Management Strategy statement details the expected activities of the Treasury function in the financial year 2017/18. 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 2017/18 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 2017/18 to 2019/20**

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 2017/18 to 2019/20**

3.1 The proposed Prudential Indicators for the Authority for the 2017/18 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 2015/16 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	%
2015/16	actual	0.00
2016/17	probable	0.00
2017/18	estimate	0.00
2018/19	estimate	0.28
2019/20	estimate	0.11

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

The actual capital expenditure that was incurred by the Authority in 2015/16 and the estimates of capital expenditure to be incurred for 2016/17 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	
2015/16	actual	108.2	
2016/17	probable	250.0	
2017/18	estimate	305.0	
2018/19	estimate	360.0	Assumes all capital expenditure will be funded from borrowing rather than Grant or Revenue contributions
2019/20	estimate	910.0	

(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 2016	actual	0.00	178.4	178.4
31 March 2017	probable	0.00	178.3	178.3
31 March 2018	estimate	257.0	178.2	435.2
31 March 2019	estimate	401.7	178.1	579.8
31 March 2020	estimate	1,213.2	177.9	1,391.1

The above figures provide the option to allow the Authority to consider funding capital purchases by borrowing in 2017/18 (£257k), 2018/19 (£155k) and 2019/20 (£828k). 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 2018/19 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
2016/17	250.0	178.3	428.3
2017/18	510.0	178.2	688.2
2018/19	671.7	178.1	849.8
2019/20	1,471.2	177.9	1,648.1

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 £688.2k will act as this limit for 2017/18.

(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
2016/17	0.0	178.3	178.3
2017/18	260.0	178.2	438.2
2018/19	421.7	178.1	599.8
2019/20	1,220.2	177.9	1,398.1

(vi) **Actual External Debt**

The Authority had no external debt at 31 March 2016. 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 2017. For Prudential Indicators, however, other long term liabilities, such as the finance lease identified in **paragraph 3.1 (iii)**, are classed as external debt for this purpose.

(vii) **CIPFA Code Compliance**

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

(viii) **Interest Rate Exposures**

If the Authority were to borrow in 2017/18, it would follow the Borrowing Strategy set out in Section 8 of this document. Borrowing could be taken from the Public Works Loan Board (PWLB), the Government's lending agency to Local Authorities, from the money market, or from internal cash balances.

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

To allow flexibility this indicator sets an upper limit on fixed interest rate exposures for 2017/18, 2018/19 and 2019/20 of **100%** of the authority's net outstanding principal sums. In essence all borrowings could be taken at fixed rates if required.

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

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

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

Borrowing	**%age of outstanding principal sums**
Limits on fixed interest rate exposures	60 to 100
Limits on variable interest rate exposures	0 to 40
Investing	
Limits on fixed interest rate exposures	0 to 30
Limits on variable interest rate exposures	70 to 100
Combined net borrowing/investment position	
Limits on fixed interest rate exposures	160 to 300
Limits on variable interest rate exposures	-60 to -200

(ix) **Gross Debt and the Capital Financing Requirement**

The Prudential Code emphasises that in order to ensure that over the medium term debt will only be for a capital purpose, the Authority should ensure that debt does not, except in the short term, exceed the total of the capital financing requirement in the 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 2015/16. Furthermore, no difficulties are anticipated for the period covered by this report to 2019/20.

(x) **Maturity Structure of Borrowing**

Upper and lower limits for the maturity structure of borrowings are set to allow maximum flexibility -

Period	Lower Limit	Upper Limit
Under 12 months	0%	100%
12 months and within 24 months	0%	100%
24 months and within 5 years	0%	100%
5 years and within 10 years	0%	100%
10 years and above	0%	100%

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

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

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

4. The Current Treasury Position

4.1 As at 31 December 2016, the Authority's Treasury position was as shown below

Item	Principal as at 31 December 2016 £k	Average return in 2016/17 to 31 December 2016 %
External Debt Outstanding		
None		
Investments		
Managed by NYCC	2,363.7*	0.60

* The figure above reflects the principal held as at 31 December 2016. The average daily balance from 1 April to 31 December 2016 was £2,722.0k

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 2019/20 are as follows:

	Item	2016/17 estimate £k	2017/18 estimate £k	2018/19 estimate £k	2019/20 estimate £k
	Debt Outstanding at the start of the Year	0.0	0.0	257.0	401.7
+	Internal or External borrowing requirements	0.0	260.0	175.0	835.0
-	MRP charged to revenue	0.0	0.0	-10.3	-16.5
+	Long Term Liabilities	178.3	178.2	178.1	177.9
=	**Operational Boundary for year**	178.3	438.2	599.8	1,398.1
+	**Provision to cover unusual cash movements**	250.0	250.0	250.0	250.0
=	**Authorised Limit for year**	**428.3**	**688.2**	**849.8**	**1,648.1**

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

Economic Growth

- UK GDP growth rates in 2013 – 2015 were some of the strongest rates among the G7 countries and growth is expected to have strengthened in 2016. The latest Bank of England forecast for growth in 2016 as a whole is +2.2%.

- The referendum vote in June 2016 delivered an immediate shock fall in confidence indicators and business surveys at the beginning of August, which were interpreted by the Bank of England in its August Inflation Report as pointing to an impending sharp slowdown in the economy. However, the following monthly indicators/surveys showed an equally sharp recovery in confidence so that it is generally expected that the economy will post reasonably strong growth numbers through 2016 and 2017, albeit at a slower pace than in the first half of 2016.

- The Bank of England GDP forecasts in the November quarterly Inflation Report were as follows, 2016 +2.2%, 2017 1.4%, 2018 +1.5%. There has, therefore, been a sharp increase in the forecast for 2017 and a small decline in growth, now being delayed until 2018, as a result of the impact of Brexit.

- The Chancellor has said he will do ‘whatever is needed’ to promote growth and there are two main options he can follow – fiscal policy e.g. cut taxes, increase investment allowances for businesses, and/or increase government expenditure on infrastructure, housing etc. This will mean that the Public sector borrowing requirement (PSBR) deficit elimination timetable will need to slip further into the future as promoting growth, (and ultimately boosting tax revenues in the longer term), will be a more urgent priority.

- The Monetary Policy Committee, (MPC), meeting of 4th August was dominated by countering the expected sharp slowdown and resulted in a package of measures that included a cut in Bank Rate from 0.50% to 0.25%, a renewal of quantitative easing, with £70bn made available for purchases of gilts and corporate bonds, and a £100bn tranche of cheap borrowing being made available for banks to use to lend to businesses and individuals.

- The MPC meeting of 3 November left Bank Rate (0.25%) and other monetary policy measures unchanged. This was in line with market expectations, but a major change from the previous quarterly Inflation Report MPC meeting in August, which had given a strong steer that it was likely to cut Bank Rate again by the end of the year if economic data turned out as forecast by the Bank.

- The latest MPC decision included a forward view that Bank Rate could go either up or down depending on how economic data evolves in the coming months. Capita’s view remains that Bank Rate will remain unchanged at 0.25% until the first increase to 0.50% in mid-2019 (unchanged from the previous forecast). However, the risk of a cut in Bank Rate cannot be discounted if economic growth were to take a significant dip downwards.

- Consumer expenditure has very much stayed in a ‘business as usual’ mode and there has been no sharp downturn in spending; it is consumer expenditure that underpins the services sector which comprises about 75% of UK GDP.

(b) Global Economy

- **Eurozone (EZ).** In 2015, the ECB commenced its €1.1 trillion programme of quantitative easing at a rate of €60bn per month which was intended to run until September 2017. In early 2016 the ECB also progressively cut its deposit facility rate to reach -0.4% and its main refinancing rate from 0.05% to zero. These measures have struggled to make a significant impact. As a result, during 2015 and 2016 the ECB increased its monthly asset purchases to €80bn and extended the programme until the end of March 2017 (but then continuing at a pace of €60 billion until the end of December 2017) or until there is a sustained adjustment in the path of inflation. If the outlook does become less favourable, it is expected that the Governing Council will increase the programme further in terms of size and/or duration.

- **Greece and Spain.** Greece continues to cause major stress in the EU due to its reluctance to implement key reforms required by the. Spain has had two inconclusive general elections in 2015 and 2016, both of which failed to produce a workable government, which is a potentially a highly unstable situation, particularly given the need to deal with an EU demand for implementation of a package of austerity cuts which will be highly unpopular.

- **European Union (EU).** Given the number and type of challenges the EU faces in the next eighteen months, (including elections in the Netherlands, France and Germany) there is an identifiable risk for the EU project to be called into fundamental question. The risk of an electoral revolt against the EU establishment has gained traction after the results of the UK referendum and the US Presidential election, but it remains to be seen whether any shift in sentiment will gain sufficient traction to produce any further shocks within the EU.

- **USA.** The American economy saw sharp swings in the quarterly growth rate in late 2015 and early 2016. However, quarter 3 (3.2%) signalled a rebound to strong growth. The Fed. embarked on its first increase in interest rates at its December 2015 meeting. At that point, confidence was high that there would be further increases in 2016. Since then, more downbeat news internationally has caused a delay in the timing of the second increase. Overall, the US is still probably the best positioned of the major world economies to make solid progress towards a combination of strong growth, full employment and rising inflation. The result of the presidential election in November is expected to lead to a strengthening of US growth if Trump's election promise of a major increase in expenditure on infrastructure is implemented. However, although the Republicans now have a President and a majority in both Congress and the Senate, there is by no means any certainty that the politicians will implement the more extreme policies outlined during the election campaign.

- **Asia.** Economic growth in Japan is still patchy, at best, and skirting with deflation, despite successive rounds of huge monetary stimulus and massive fiscal action to promote consumer spending. Economic growth in China has been slowing down and this, in turn, has been denting economic growth in emerging market countries dependent on exporting raw materials to China. Medium term risks have been increasing in China e.g. a dangerous build up in the level of credit compared to the size of GDP, plus there is a need to address a major over supply of housing and surplus industrial capacity, which both need to be eliminated. This needs to be combined with a rebalancing of the economy from investment expenditure to consumer spending.

- **Emerging Countries**. There have been major concerns around the vulnerability of some emerging countries exposed to the downturn in demand for commodities from China or to competition from the increase in supply of American shale oil and gas reaching world markets. The ending of sanctions on Iran has also brought a further significant increase in oil supplies into the world markets. While these concerns have subsided during 2016, if interest rates in the USA do rise substantially over the next few years, (and this could also be accompanied by a rise in the value of the dollar in exchange markets), this could cause significant problems for those emerging countries with large amounts of debt denominated in dollars.

(c) Capita Asset Services Forward View

- Economic 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. The opposite side of this coin has been a rise in equity values as investors searched for higher returns and took on riskier assets. PWLB rates and gilt yields have been experiencing exceptional levels of volatility that have been highly correlated to geo-political, sovereign debt crisis and emerging market developments. It is likely that these exceptional levels of volatility could continue to occur for the foreseeable future.

- 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:
  - → Monetary policy action by the major central banks reaching its limit of effectiveness.
  - → Major national polls in Italy, Spain, The Netherlands, France and Germany. .
  - → A resurgence of the Eurozone sovereign debt crisis.
  - → Weak capitalisation of some European banks, especially Italian
  - → Geopolitical risks in Europe, the Middle East and Asia
  - → UK economic growth and increases in inflation are weaker than anticipated
  - → Weak growth or recession in the UK's main trading partners – the EU and US

- The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -
  - → UK inflation rising to significantly higher levels than in the wider EU and US, causing an increase in the inflation premium in gilt yields
  - → A rise in US Treasury yields as a result of Fed. Funds rate increases and rising inflation expectations in the USA
  - → The pace and timing of increases in the Fed. Funds rate
  - → A downward revision to the UK's sovereign credit rating undermining investor confidence in holding sovereign debt (gilts)

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

	Bank Rate	**PWLB Borrowing Rates (including 0.2% discount (para. 6.3))**				**Short Term Investment Rates**	
		5 year	**10 year**	**25 year**	**50 year**	**3 Months**	**1 Year**
	%	**%**	**%**	**%**	**%**	**%**	**%**
Mar 2017	0.25	1.60	2.30	2.90	2.70	0.30	0.70
June 2017	0.25	1.60	2.30	2.90	2.70	0.30	0.70
Sept 2017	0.25	1.60	2.30	2.90	2.70	0.30	0.70
Dec 2017	0.25	1.60	2.30	3.00	2.80	0.30	0.70
Mar 2018	0.25	1.70	2.30	3.00	2.80	0.30	0.70
June 2018	0.25	1.70	2.40	3.00	2.80	0.30	0.80
Sept 2018	0.25	1.70	2.40	3.10	2.90	0.30	0.80

	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
Dec 2018	0.25	1.80	2.40	3.10	2.90	0.40	0.90
Mar 2019	0.25	1.80	2.50	3.20	3.00	0.50	1.00
June 2019	0.50	1.90	2.50	3.20	3.00	0.60	1.10
Dec 2019	0.75	2.00	2.60	3.30	3.10	0.80	1.30
Mar 2020	0.75	2.00	2.70	3.40	3.20	0.90	1.40

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

Bank Rate

- thus bank rate currently set at 0.25% underpins investment returns and is not expected to start increasing until mid 2019
- it is then expected to continue rising by further 0.25% increases reaching 0.75% by December 2019 (0.50% in June 2019)
- 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 internet rate forecasts at present

PWLB Rates

- fixed interest PWLB borrowing rates are based on UK gilt yields
- the overall longer run trend for gild 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 2017	March 2020	Increase
	%	%	%
5 years	1.60	2.00	+ 0.40
10 years	2.30	2.70	+ 0.40
25 years	2.90	3.40	+ 0.50
50 years	2.70	3.20	+ 0.50

Short Term Investment Rates

- investment returns are likely to remain relatively low during 2017/18 and beyond

- returns are expected to increase along with bank rate increases

- suggested returns on investments placed for periods up to 100 days are 0.30% in 2017/18, 0.50% in 2018/19 and 0.9% in 2019/20

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 2017/18. 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 2017/18 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 2016/17 there is a current daily average of £2.7m. 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 2017/18 as set out in **paragraph 9.7** below.

9.7 The policy for 2017/18 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 2017/18 Treasury Management and Investment Strategy is detailed in **Schedule A** to **Appendix B** (Treasury Management Strategy Statement 2017/18).

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 Capita's (the County Council's approved Treasury Management consultants) creditworthiness service. The service which has been progressively developed uses a sophisticated modelling system that includes:

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

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

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

- institutions will be removed or temporarily suspended from the Approved Lending List if there are significant concerns about their financial standing or stability

- investment exposure will be concentrated with higher rated institutions wherever possible.

10.14 Utilising the approach to the assessment of credit quality, the criteria and investment limits for specified investments (a maximum of 364 days) are:

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

10.16 Local Authorities will continue to be included on the Approved Lending List for 2017/18, 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.

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

10.18 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.

10.19 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.

10.20 Various changes have been made to the Lending List of the County Council for the 2017/18 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. Standard Chartered Bank were added to the Approved Lending List on 21 October 2016. Standard Chartered Bank provide an additional high quality counterparty, offering a range of deposit options.

KAREN IVESON
Treasurer to North York Moors National Park Authority
Central Services
County Hall
Northallerton
1 February 2017

SCHEDULE A

APPROVED LENDING LIST 2017/18

Maximum sum invested at any time (The overall total exposure figure covers both Specified and Non-Specified investments)

	Country	Specified Investments (up to 1 year)		Non-Specified Investments (> 1 year £20m limit)	
		Total Exposure £m	Time Limit *	Total Exposure £m	Time Limit *
UK "Nationalised" banks / UK banks with UK Central Government involvement					
Royal Bank of Scotland	GBR	85.0	364 days	-	-
Natwest Bank	GBR				
Bank of Scotland	GBR	85.0	6 months	-	-
Lloyds	GBR				
UK "Clearing Banks", other UK based banks and Building Societies					
Santander UK plc (includes Cater Allen)	GBR	40.0	6 months	-	-
Barclays Bank	GBR	75.0	6 months	-	-
HSBC	GBR	30.0	364 days		
Clydesdale Bank (trading as Yorkshire Bank)	GBR	30.0 (Shared with NAB)	Temporarily suspended	-	-
Goldman Sachs International Bank	GBR	40.0	6 months		
Nationwide Building Society	GBR	40.0	6 months	-	-
Leeds Building Society	GBR	20.0	6 months	-	-
Standard Chartered Bank	GBR	40.0	3 months	-	-
High quality Foreign Banks					
National Australia Bank	AUS	30.0 (Shared with Clydesdale)	364 days	-	-
Commonwealth Bank of Australia	AUS	20.0	364 days		
Canadian Imperial Bank of Commerce	CAN	20.0	364 days	-	-
Deutsche Bank	DEU	20.0	Temporarily suspended	-	-
Nordea Bank Finland	FIN	20.0	364 days	-	-
Credit Industriel et Commercial	FRA	20.0	364 days	-	-
BNP Paribas Fortis	FRA	20.0	6 months	-	-
Nordea Bank AB	SWE	20.0	364 days	-	-
Svenska Handelsbanken	SWE	40.0	364 days	-	-
Local Authorities					
County / Unitary / Metropolitan / District Councils		20.0	364 days	5.0	2 years
Police / Fire Authorities		20.0	364 days	5.0	2 years
National Park Authorities		20.0	364 days	5.0	2 years
Other Deposit Takers					
Money Market Funds		20.0	364 days	5.0	2 years
UK Debt Management Account		100.0	364 days	5.0	2 years

* Based on data as 10 January 2017

NORTH YORK NATIONAL PARK AUTHORITY ANNUAL INVESTMENT STRATEGY 2017/18 SPECIFIED INVESTMENTS

Investment	Security / Minimum Credit Rating	Circumstances of Use
Term Deposits with the UK Government or with UK Local Authorities (as per Local Government Act 2003) with maturities up to 1 year	High security as backed by UK Government	In-house
Term Deposits with credit rated deposit takers (Banks and Building Societies), including callable deposits with maturities less than 1 year		In-house
Certificate of Deposits issued by credit rated deposit takers (Banks and Building Societies) up to 1 year	Organisations assessed as having "high credit quality" plus a minimum Sovereign rating of AA- for the country in which the organisation is domiciled	Fund Manager or In-house "buy and hold" after consultation with Treasury Management Advisor
Forward deals with credit rated Banks and Building Societies less than 1 year (i.e. negotiated deal plus period of deposit)		In-house
Money Market Funds i.e. collective investment scheme as defined in SI2004 No 534 (*These funds have no maturity date*)	Funds must be AAA rated	In-house After consultation with Treasury Management Advisor Limited to £20m
Gilts (with maturities of up to 1 year)	Government Backed	Fund Manager or In-house buy and hold after consultation with Treasury Management Advisor
Bonds issued by a financial institution that is guaranteed by the UK Government (as defined in SI 2004 No 534) with maturities under 12 months (*Custodial arrangements required prior to purchase*)		After consultation with Treasury Management Advisor

SCHEDULE B

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

investment	A) Why use it? B) Associated Risks?	Security / Minimum Credit Rating	Circumstances of Use	Max % of overall investments or cash limits in cash category	Maximum investment with any one counterparty	Maximum Maturity Period
Term Deposit with credit rated deposit takers (Banks & Building Societies), UK Government and other Local Authorities with maturities greater than 1 year	A) Certainty of return over period invested which could be useful for budget purposes B) Not Liquid, cannot be traded or repaid prior to maturity Return will be lower if interest rates rise after making deposit Credit risk as potential for greater deterioration of credit quality over a longer period	Organisations assessed as having "high credit quality" Plus A minimum Sovereign rating of AA- for the country in which an organisation is domiciled	In-house	100% of agreed maximum proportion (20%) of core cash funds that can be invested for more than 1 year (estimated £20m)	£5m	2 years subject to potential future review with a maximum of no longer than 5 years
Certificate of Deposit with credit rated deposit takers (Banks & Building Societies) with maturities greater than 1 year *Custodial arrangements prior to purchase*	A) Attractive rates of return over period invested and in theory tradable B) Interest rate risk; the yield is subject to movement during life of CD which could negatively impact on its price		Fund Manager or In-house "buy & hold" after consultation with Treasury Management Advisor	25% of agreed proportion (20%) of core cash funds 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	25% of greed proportion (20%) of core cash funds that can be invested for more than 1 year (£5m)	£3m	2 years subject to potential future review with a maximum of no longer than 5 years
Bonds issued by a financial institution that is guaranteed by the UK Government (as defined in SI2004 No534) with maturities in excess of 1 year Custodial arrangements required prior to purchase	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		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	

SCHEDULE B

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	

SCHEDULE B