North York Moors

Contents

National Park Authority

22 March 2020

Item 11, Treasury management and the prudential code for capital finance

Report of the Chief Finance Officer

1. Purpose of the report

1.1 To consider the updated Annual Treasury Management Strategy and Annual Investment Strategy for 2021/22, and Prudential Indicators for the financial years 2020/21 – 2023/24.

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 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 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 Chief Finance Officer 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 January 2021 the Authority does not have any loans in place and has not needed to borrow to fund capital projects. Despite not having taken out loans, the possibility of borrowing is an option that the Authority has ensured is available to it when making decisions on the optimum way to finance capital purchases. The indicators proposed in this report 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 2021/22;

(b) approve an Annual Investment Strategy (AIS) for 2021/22;

(c) approve a Minimum Revenue Provision Policy (MRP) for 2021/22;

(d) approve a Capital Strategy for 2021/22; and

(e) approve an updated set of Prudential Indicators (PI's) for the period 2021/22 to 2023/24.

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 2021.

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" - £427.6k for 2021/22, which is the maximum that can be borrowed in the year. The Authority's "Operational Boundary" is £177.6k, 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 is required to use the AIS which will be adopted by the County Council on 17 February 2021. As a result there is no need to adopt a North York Moors specific 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 2021/22

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); and
- other treasury management issues (paragraph 11).

8.2 The Chief Finance Officer 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 Chief Finance Officer 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 2021/22 Treasury Management and Investment Strategy is detailed in Schedule A to appendix B (Treasury Management Strategy Statement 2021/22).

9.4 The information below details all the changes reflected in the latest Approved Lending List (Schedule A) compared with that submitted for 2020/21 in March 2020. Please note that the analysis below is between the version provided last year and the proposed list for 2021/22 – 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 2020/21 Approved Lending List which will not be included for 2021/22:

None

(b) organisations added to the Approved Lending List during 2020/21

None

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

9.5 Local Authorities will continue to be included on the Approved Lending List for 2021/22. As a result of the way they are financed and their governance arrangements, Local Authorities are classed as having the highest credit rating.

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 It should be noted that in order to ensure the Authority's investment strategy is consistent with North Yorkshire County Council's, Property Funds have now been added to the Approved Lending List at Schedule A and schedule of Non Specified Investments at Schedule B of appendix B. In October 2018, North Yorkshire County Council invested £6m in two separate Property Funds (pooled investment vehicles investing in commercial property). The investment in Property Funds is ring-fenced to North Yorkshire County Council and is not part of the pooled investment fund. However, Property Funds are not a viable investment option for the Authority as it is unable to meet investment regulation criteria due to the low level of funds under management.

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 and 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 the Authorities Latest Financial Regulations, updated October 2018. Sections 3.24-3.31 (regarding Treasury Management) state the current arrangements being as follows:-

(a) The Authority adopts the key recommendations of CIPFA's Treasury Management in The Public Services: Code of Practice, as described in Section 4 of that Code.

(b) Accordingly, the Authority will create and maintain, as the cornerstones for effective Treasury Management:

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

ii. 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.

(c) The Authority will be responsible for the implementation and monitoring of its Treasury Management Policies and Practices, but delegates the execution and administration of Treasury Management decisions to the Chief Finance Officer who will act in accordance with the Authority's TMPS, associated TMPs and CIPFA's Standard of Professional Practice on Treasury Management.

(d) The Authority will receive reports on Treasury Management Policies, Practices and Activities including, as a minimum:

i. An Annual Strategy Report in advance of the year.

ii. A Mid-Year Review.

iii. An Annual Report after the 31st March in the form described in the TMPs.

(e) The Authority delegates to FRASC the responsibility of ensuring the effective scrutiny of the Treasury Management Strategies, Policies and Activities.

(f) All money in the possession of the Authority shall be under the control of the Chief Executive.

(g) The Chief Financial Officer shall periodically review TMPS and associated documentation and they shall make recommendations accordingly to the Authority.

(h) Notwithstanding the other regulations relating to Treasury Management, the Chief Financial Officer shall ensure that the Treasury Management System is documented and ensure that Treasury Management reports are regularly provided to the Authority.

13. Financial and staffing implications

13.1 There are no direct financial or staffing implications from this report.

14. Contribution to National Park Management Plan

14.1 The Authority has a statutory duty to produce its annual treasury management and investment strategies. The underpinning purpose is to ensure the Authority considers the key financial risks associated with managing cash flows, prudent investment decisions, financing of capital spending plans, and to ensure that capital investment is prudent, affordable and sustainable in the long term.

15. Legal and sustainability implications

15.1 There are no legal issues as a result of this report.

16. Recommendation

16.1 That Members recommend to the Authority at its meeting on 22 March 2021 to:

(i) approve the Annual Treasury Management Strategy for 2021/22 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 2021/22;

(iii) approve the authorised borrowing limit of £427.6k for 2021/22, under section 3(i) of the Local Government Act 2003 as set out in appendix B;

(iv) confirm the delegation to the Chief Finance Officer, 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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Background documents to this report

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 Chief Finance Officer.

5.3 The Authority's day to day investments are managed as part of an overall investment pool operated by North Yorkshire 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 21/22

1. Introduction

1.1 This Treasury Management Strategy statement details the expected activities of the Treasury function in the financial year 2021/22. 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 2021/22 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 2021/22 to 2023/24

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 2021/22 to 2023/24

3.1 The proposed Prudential Indicators for the Authority for the 2021/22 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 2019/20 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	%
2019/20	Actual	0.00
2020/21	Probable	0.00
2021/22	Estimate	0.00
2022/23	Estimate	0.00
2023/24	Estimate	0.00

(ii) Capital Expenditure Plans (Actual and Estimated)

The actual capital expenditure that was incurred by the Authority in 2019/20 and the estimates of capital expenditure to be incurred for 2020/21 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
2019/20	Actual	1,283
2020/21	Probable	1,987
2021/22	Estimate	605
2022/23	Estimate	689
2023/24	Estimate	538

(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 2020	Actual	0.0	177.9	177.9
31 March 2021	probable	0.0	177.7	177.7
31 March 2022	estimate	0.0	177.6	177.6
31 March 2023	estimate	0.0	177.3	177.3
31 March 2024	estimate	0.0	177.1	177.1

The above figures provide the option to allow the Authority to consider funding capital purchases by borrowing. However the level of debt outstanding needs to be adjusted for the Minimum Revenue Provision (MRP). Details of the way in which this provision is made is covered in Section 9 below. This MRP provision applies to debt outstanding at the end of each financial year and therefore the MRP charge will be applicable from 2023/24 onwards and the capital financing requirement will be reduced accordingly.

(iv) Authorised Limit for External Debt

This indicator represents the limit beyond which borrowing by the Authority is prohibited, and is based upon the best estimate of increases in debt arising from the capital financing requirement plus a margin to allow some flexibility for unforeseen cash movements. This has been included at £250k.

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

The Chief Finance Officer has delegated authority to effect any changes between the separately agreed limits for borrowing and other long term liabilities, in accordance with option appraisal, value for money and any other relevant factors.

The recommended Authorised limits for external debt are as follows:

Year	Borrowing Limit £k	Other Long Term Liabilities £k	Total £k
2020/21	250.0	177.7	427.7
2021/22	250.0	177.6	427.6
2022/23	250.0	177.3	427.3
2023/24	250.0	177.1	177.1

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

Under Section 3(1) of the Local Government Act 2003 the Authority must determine a Statutory Limit in terms of how much money it can afford to borrow. This affordable borrowing limit must be set for the following year. The Authorised limit of £427.6k will act as this limit for 2021/22.

(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 Chief Finance Officer 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
2020/21	0.0	177.7	177.7
2021/22	0.0	177.6	177.6
2022/23	0.0	177.3	177.3
2023/24	0.0	177.1	177.1

(vi) Actual External Debt

The Authority had no external debt at 31 March 2020. The position as at 31 March 2021 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 2021. For Prudential Indicators, however, other long term liabilities, such as the finance lease identified in paragraph 3.1 (iii), are classed as external debt for this purpose.

(vii) Gross Debt and the Capital Financing Requirement

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

The Chief Finance Officer can confirm that the Authority has met this requirement up to 2019/20. Furthermore, no difficulties are anticipated for the period covered by this report to 2023/24.

(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%

Period	Lower Limit	Upper Limit
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 2020, the Authority's Treasury position was as shown below

Item	Principal as at 31 December 2020 £k	Average return in 2020/21 to 31 December 2020 %
External Debt Outstanding None Investments Managed by NYCC	4,128*	0.3

*The figure above reflects the principal held as at 31 December 2020. The average daily balance from 1 April to 31 December 2020 was £4,249k.

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 2023/24 are as follows:

Item	2020/21 estimate £k	2021/22 estimate £k	2022/23 estimate £k	2023/24 estimate £k
Debt Outstanding at the start of the Year	0.0	0.0	0.0	0.0
+ Internal or External borrowing requirements	0.0	0.0	0.0	0.0
- MRP charged to revenue	0.0	0.0	0.0	0.0
+ Long Term Liabilities				
= Operational Boundary for year				
+ Provision to cover unusual cash movements	250.0	250.0	250.0	250.0
= Authorised Limit for year				

6. Borrowing Policy

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

6.2 The Chief Finance Officer, on the recommendation of the 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 Chief Finance Officer will monitor this situation closely throughout the year to determine the most appropriate and advantageous borrowing.

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

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

7. Prospects for interest rates

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

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

The UK

The Bank of England's Monetary Policy Committee kept Bank Rate unchanged on 5th November. However, it revised its economic forecasts to take account of a second national lockdown from 5th November to 2nd December which is obviously going to put back economic recovery and do further damage to the economy. It therefore decided to do a further tranche of quantitative easing (QE) of £150bn, to start in January when the current programme of £300bn of QE announced in March to June, runs out. It did this so that "announcing further asset purchases now should support the economy and help to ensure the unavoidable near-term slowdown in activity was not amplified by a tightening in monetary conditions that could slow the return of inflation to the target". Its forecasts were optimistic in terms of three areas:

- the economy would recover to reach its pre-pandemic level in Q1 2022;
- an expectation that there will be excess demand in the economy by Q4 2022; and
- CPI inflation forecast to be a bit above its 2% target by the start of 2023 and the "inflation risks were judged to be balanced".

Significantly, there was no mention of negative interest rates in the minutes or Monetary Policy Report, suggesting that the MPC remains some way from being persuaded of the case for such a policy, at least for the next 6 -12 months. However, rather than saying that it "stands ready to adjust monetary policy", the MPC this time said that it will take "whatever additional action was necessary to achieve its remit". The latter seems stronger and wider and may indicate the Bank's willingness to embrace new tools.

The Bank's forward guidance in August stated "it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% target sustainably". Inflation is unlikely to cause increases in Bank Rate during this period as there is likely to be spare capacity in the economy for a considerable time. It is expected to briefly peak at around 2% towards the end of 2021, but this is a temporary short-lived factor.

However, the minutes did contain several references to downside risks. The MPC reiterated that the "recovery would take time, and the risks around the GDP projection were judged to be skewed to the downside". It also said "the risk of a more persistent period of elevated unemployment remained material". Downside risks could well include severe restrictions remaining in place in some form during the rest of December and most of January too. That could involve some or all of the lockdown being extended beyond 2nd December, a temporary relaxation of restrictions over Christmas, a resumption of the lockdown in January and many regions being subject to Tier 3 restrictions when the lockdown ends. Hopefully, restrictions should progressively ease during the spring. It is only to be expected that some businesses that have barely survived the first lockdown, will fail to survive the second lockdown, especially those businesses that depend on a surge of business in the run up to Christmas each year. This will mean that there will be some level of further permanent loss of economic activity, although the extension of the furlough scheme to the end of 31 March will limit the degree of damage done.

As for upside risks, the announcements in relation to the production and distribution of a COVID19 vaccine have boosted confidence that life could largely return to normal during the second half of 2021, with activity in the still-depressed sectors like restaurants, travel and hotels returning to their pre-pandemic levels, which would help to bring the unemployment rate down. With the household saving rate currently being exceptionally high, there is plenty of pent-up demand and purchasing power stored up for these services. A comprehensive roll-out of vaccines might take into late 2021 to fully complete; but if these vaccines prove to be highly effective, then there is a possibility that restrictions could begin to be eased, possibly in Q2 2021, once vulnerable people and front-line workers had been vaccinated. At that point, there would be less reason to fear that hospitals could become overwhelmed any more. Effective vaccines would radically improve the economic outlook once they have been widely administered; it may allow GDP to rise to its pre-virus level a year earlier than otherwise and mean that the unemployment rate peaks at 7% next year instead of 9%. But while this would reduce the need for more QE and/or negative interest rates, increases in Bank Rate would still remain some years away. There is also a potential question as to whether the relatively optimistic outlook of the Monetary Policy Report was swayed by making positive assumptions around effective vaccines being available soon. It should also be borne in mind that as effective vaccines will take time to administer, economic news could well get worse before it starts getting better.

Overall, the pace of recovery was not expected to be in the form of a rapid V shape, but a more elongated and prolonged one. The initial recovery was sharp but after a disappointing increase in GDP of only 2.1% in August, this left the economy still 9.2%

smaller than in February; this suggested that the economic recovery was running out of steam after recovering 64% of its total fall during the crisis. The last three months of 2020 were originally expected to show zero growth due to the impact of widespread local lockdowns, consumers probably remaining cautious in spending, and uncertainty over the outcome of the UK/EU trade negotiations concluding at the end of the year also being a headwind. It was expected that the second national lockdown would push back recovery of GDP to pre pandemic levels by six months and into sometime during 2023. However, now that there is high confidence that successful vaccines will be widely administered in the UK in the first half of 2021; this would cause a much quicker recovery than in their previous forecasts.

The Global Economy

USA

The result of the November elections means that while the Democrats have gained the presidency and a majority in the House of Representatives, it looks as if the Republicans will retain their slim majority in the Senate. This means that the Democrats will not be able to do a massive fiscal stimulus, as they had been hoping to do after the elections, as they will have to get agreement from the Republicans. Equity prices leapt up on 9th November on the first news of a successful vaccine and have risen further during November as more vaccines announced successful results. However, the rise in yields has been quite muted so far and it is too early to say whether the Fed would feel it necessary to take action to suppress any further rise in debt yields. It is likely that the next two years, and possibly four years in the US, could be a political stalemate where neither party can do anything radical.

The economy had been recovering quite strongly from its contraction in 2020 of 10.2% due to the pandemic with GDP only 3.5% below its pre-pandemic level and the unemployment rate dropping below 7%. However, the rise in new cases to the highest level since mid-August, suggests that the US could be in the early stages of a third wave. While the first wave in March and April was concentrated in the Northeast, and the second wave in the South and West, the latest wave has been driven by a growing outbreak in the Midwest. The latest upturn poses a threat that the recovery in the economy could stall. This is the single biggest downside risk to the shorter term outlook – a more widespread and severe wave of infections over the winter months, which is compounded by the impact of the regular flu season and, as a consequence, threatens to overwhelm health care facilities. Under those circumstances, states might feel it necessary to return to more draconian lockdowns.

However, with the likelihood that highly effective vaccines are going to become progressively widely administered during 2021, this should mean that life will start to return to normal during quarter 2 of 2021. Consequently, there should be a sharp pick-up in growth during that quarter and a rapid return to the pre-pandemic level of growth by the end of the year.

The Federal Open Market Committee's updated economic and rate projections in mid-September showed that officials expect to leave the fed funds rate at near-zero until at least end-2023 and probably for another year or two beyond that. There is now some expectation that where the Fed has led in changing its inflation target, other major central banks will follow. The increase in tension over the last year between the US and China is likely to lead to a lack of momentum in progressing the initial positive moves to agree a phase one trade deal.

Eurozone

The economy was recovering well towards the end of Q2 and into Q3 after a sharp drop in GDP caused by the virus. However, growth is likely to stagnate during Q4, and Q1 of 2021, as a second wave of the virus has affected many countries, and is likely to hit hardest those countries more dependent on tourism. The €750bn fiscal support package eventually agreed by the EU after prolonged disagreement between various countries, is unlikely to provide significant support, and quickly enough, to make an appreciable difference in the worst affected countries. With inflation expected to be unlikely to get much above 1% over the next two years, the ECB has been struggling to get inflation up to its 2% target. It is currently unlikely that it will cut its central rate even further into negative territory from -0.5%, although the ECB has stated that it retains this as a possible tool to use. It is therefore expected that it will have to provide more monetary policy support through more quantitative easing purchases of bonds in the absence of sufficient fiscal support from governments.

However, as in the UK and the US, the advent of highly effective vaccines will be a game changer, although growth will struggle during the closing and opening quarters of this year and next year respectively before it finally breaks through into strong growth in quarters 2 and 3. The ECB will now have to review whether more monetary support will be required to help recovery in the shorter term or to help individual countries more badly impacted by the pandemic.

China

After a concerted effort to get on top of the virus outbreak in Q1, economic recovery was strong in Q2 and then into Q3 and Q4; this has enabled China to recover all of the contraction in Q1. Policy makers have both quashed the virus and implemented a programme of monetary and fiscal support that has been particularly effective at stimulating short-term growth. At the same time, China's economy has benefited from the shift towards online spending by consumers in developed markets. These factors help to explain its comparative outperformance compared to western economies.

However, this was achieved by major central government funding of yet more infrastructure spending. After years of growth having been focused on this same area, any further spending in this area is likely to lead to increasingly weaker economic returns in the longer term. This could, therefore, lead to a further misallocation of resources which will weigh on growth in future years.

Japan

Japan's success in containing the virus without imposing draconian restrictions on activity should enable a faster return to pre-virus levels of output than in many major economies. While the second wave of the virus has been abating, the economy has been continuing to recover at a reasonable pace from its earlier total contraction of 8.5% in GDP. However, there now appears to be the early stages of the start of a third wave. It has also been struggling to get out of a deflation trap for many years and to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. There has also been little progress on fundamental reform of the economy. The change of Prime Minister is not expected to result in any significant change in economic policy.

World Growth

While Latin America and India have, until recently, been hotspots for virus infections, infection rates have begun to stabilise. World growth will be in recession this year. Inflation is unlikely to be a problem for some years due to the creation of excess production capacity and depressed demand caused by the coronavirus crisis.

Until recent years, world growth has been boosted by increasing globalisation i.e. countries specialising in producing goods and commodities in which they have an economic advantage and which they then trade with the rest of the world. This has boosted worldwide productivity and growth, and, by lowering costs, has also depressed inflation. However, the rise of China as an economic superpower over the last thirty years, which now accounts for nearly 20% of total world GDP, has unbalanced the world economy. The Chinese government has targeted achieving major world positions in specific key sectors and products, especially high tech areas and production of rare earth minerals used in high tech products. It is achieving this by massive financial support, (i.e. subsidies), to state owned firms, government directions to other firms, technology theft, restrictions on market access by foreign firms and informal targets for the domestic market share of Chinese producers in the selected sectors. This is regarded as being unfair competition that is putting western firms at an unfair disadvantage or even putting some out of business. It is also regarded with suspicion on the political front as China is an authoritarian country that is not averse to using economic and military power for political advantage. The current trade war between the US and China therefore needs to be seen against that backdrop. It is, therefore, likely that we are heading into a period where there will be a reversal of world globalisation and a decoupling of western countries from dependence on China to supply products. This is likely to produce a backdrop in the coming years of weak global growth and so weak inflation.

Central banks are, therefore, likely to come under more pressure to support growth by looser monetary policy measures and this is likely to result in more quantitative easing and keeping rates very low for longer. It will also put pressure on governments to provide more fiscal support for their economies.

A surge in investor confidence, as a result of successful vaccines, may help to suppress the rise in debt yields and so keep the total interest bill on greatly expanded government debt portfolios within manageable parameters. It is also the main alternative to a programme of austerity.

Interest rate forecasts

The interest rate forecasts provided by Link are predicated on an assumption of a reasonable agreement being reached on trade negotiations between the UK and the EU by 31.12.20. However, as the differences between a Brexit deal and a no deal are not as big as they once were, the economic costs of a no deal have diminished. The bigger risk is that relations between the UK and the EU deteriorate to such an extent that both sides start to unravel the agreements already put in place. So what really matters now is not whether there is a deal or a no deal, but what type of no deal it could be.

The real risk is if the UK and the EU cannot agree. The UK could override part or all of the Withdrawal Agreement while the EU could respond by starting legal proceedings and few measures could be implemented to mitigate the disruption on 1.1.21. The acrimony would probably continue beyond 2021 too, which may lead to fewer agreements in the future and the expiry of any temporary measures.

Relative to the slump in GDP endured during the COVID crisis, any hit from a no deal would be small. But the pandemic does mean there is less scope for policy to respond. Even so, the Chancellor could loosen fiscal policy by about £10bn (0.5% of GDP) and target it at those sectors hit hardest. The Bank of England could also prop up demand, most likely through more gilt and corporate bond purchases rather than negative interest rates.

Brexit may reduce the economy's potential growth rate in the long run. However, much of that drag is now likely to be offset by an acceleration of productivity growth triggered by the digital revolution brought about by the COVID crisis.

So in summary, there is not likely to be any change in Bank Rate in 20/21 – 21/22 due to whatever outcome there is from the trade negotiations and while there will probably be some movement in gilt yields / PWLB rates after the deadline date, there will probably be minimal enduring impact beyond the initial reaction.

The balance of risks to the UK

The overall balance of risks to economic growth in the UK is probably relatively even, but is subject to major uncertainty due to the virus. It may also be affected by what, if any, deal the UK agrees as part of Brexit; and

there is relatively little UK domestic risk of increases or decreases in Bank Rate and significant changes in shorter term PWLB rates. The Bank of England has effectively ruled out the use of negative interest rates in the near term and increases in Bank Rate are likely to be some years away given the underlying economic expectations. However, it is always possible that safe haven flows, due to unexpected domestic developments and those in other major economies, could impact gilt yields, (and so PWLB rates), in the UK.

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

- UK - further national lockdowns or serve regional restrictions in major conurbations during 2021;

- UK / EU trade negotiations – if it were to cause significant economic disruption and downturn in the rate of growth;
- UK - Bank of England takes action too quickly, or too far, 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;
- a resurgence of the Eurozone sovereign debt crisis;
- weak capitalisation of some European banks, which could be undermined further depending on extent of credit losses resultant of the pandemic;
- German minority government & general election in 2021;
- Other minority EU governments. Austria, Sweden, Spain, Portugal, Netherlands, Ireland and Belgium also have vulnerable minority governments dependent on coalitions which could prove fragile;
- Austria, the Czech Republic, Poland and Hungary now form a strongly anti-immigration bloc within the EU. There has also been a rise in anti-immigration sentiment in Germany and France;
- Geopolitical risks, for example in China, Iran or North Korea, but also in Europe and other Middle Eastern countries, which could lead to increasing safe haven flows; and
- US – the Presidential election in 2020: this could have repercussions for the US economy and SINO-US trade relations.

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

- UK - stronger than currently expected recovery in UK economy;
- Post-Brexit – if an agreement was reached that removed the majority of threats of economic disruption between the EU and the UK; and
- The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.

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				Short Term Investment Rates	
		5 year	10 year	25 year	50 year	3 Months	1 Year
-	%	%	%	%	%	%	%
Mar 2021	0.10	0.80	1.10	1.50	1.30	0.10	0.20
June 2021	0.10	0.80	1.10	1.60	1.40	0.10	0.20
Sept 2021	0.10	0.80	1.10	1.60	1.40	0.10	0.20
Dec 2021	0.10	0.80	1.10	1.60	1.40	0.10	0.20
Mar 2022	0.10	0.90	1.20	1.60	1.40	0.10	0.20
June 2022	0.10	0.90	1.20	1.70	1.50	0.10	0.20
Sept 2022	0.10	0.90	1.20	1.70	1.50	0.10	0.20
Dec 2022	0.10	0.90	1.20	1.70	1.50	0.10	0.20
Mar 2023	0.10	0.90	1.20	1.70	1.50	0.10	0.20
June 2023	0.10	1.00	1.30	1.80	1.60	0.10	0.20
Sep 2023	0.10	1.00	1.30	1.80	1.60	0.10	0.20
Dec 2023	0.10	1.00	1.30	1.80	1.60	0.10	0.20
Mar 2024	0.10	1.00	1.30	1.80	1.60	0.10	0.20

7.4 As shown in the forecast table above, no increase in Bank Rate is expected in the forecast table above as economic recovery is expected to be only gradual and, therefore, prolonged.

As the interest forecast table for PWLB certainty rates above shows, there is expected to be little upward movement in PWLB rates over the next two years as it will take economies, including the UK, a prolonged period to recover all the momentum they have lost in the sharp recession caused during the coronavirus shut down period.

Investment returns are likely to remain low during 2021/22 with little increase in the following two years.

Borrowing interest rates fell to historically very low rates as a result of the COVID crisis and the quantitative easing operations of the Bank of England: indeed, gilt yields up to 6 years were on negative yields during most of the first half of 20/21. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years.

On 25.11.20, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates; the standard and certainty margins were reduced by 1% but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three year capital programme.

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 2021/22. 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.

External -v- internal borrowing

8.3 2021/22 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 2020/21 there is a current daily average of £4,249m. This cash consists of cash flow generated (creditors and debtors etc); reserves, balances and provisions etc.

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

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

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

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

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

(b) short term savings by avoiding/delaying new external borrowing must be 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 slightly higher.

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

Sensitivity of the forecast

8.10 The main sensitivities of the forecast are likely to be the two scenarios below. The Chief Finance Officer 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 2020/21 as set out in paragraph 9.7 below.

9.7 The policy for 2021/22 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 Chief Finance Officer.

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:

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

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

Creditworthiness policy

10.9 The approved Lending List of Organisations (counterparties) to which the Authority may make investments, together with the maximum sum at any time that can be placed with each, is outlined in the 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 Chief Finance Officer 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 2021/22 Treasury Management and Investment Strategy is detailed in Schedule A to appendix B (Treasury Management Strategy Statement 2021/22).

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 £75m;
- other institutions achieving suitable credit scores and colour bonding being limited to a maximum investment limit of between £20m and £60m (actual duration and investment limit dependent on final colour/score).

10.15 Local Authorities will continue to be included on the Approved Lending List for 2021/22, 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 2021/22 Treasury Management and Investment Strategy and the Lending List is kept under regular review. This revised lending list, at the time of compiling this report, is detailed in Schedule A.

11. Other treasury management issues

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

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

Pete Williams

Chief Finance Officer to North York Moors National Park Authority

Schedule A, Approved lending list 2021/22

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

	Country	Specified Investments (up to 1 year)		Non-Specified Investments (> 1 year £40m limit)	
		Total Exposure £m	Time Limit *	Total Exposure £m	Time Limit *
UK "Nationalised" banks / UK banks with UK Central Government involvement					
Royal Bank of Scotland PLC (RFB)	GBR	75.0	365 days	-	-
National Westminster Bank PLC (RFB)	GBR				
UK "Clearing Banks", other UK based banks and Building Societies					
Santander UK PLC (includes Cater Allen)	GBR	60.0	6 months	-	-
Barclays Bank PLC (NRFB)	GBR	75.0	6 months	-	-
Barclays Bank UK PLC (RFB)	GBR				
Bank of Scotland PLC (RFB)	GBR	60.0	6 months	-	-
Lloyds Bank PLC (RFB)	GBR				
Lloyds Bank Corporate Markets PLC (NRFB)	GBR				
HSBC Bank PLC (NRFB)	GBR	30.0	365 days	-	-
HSBC UK Bank PLC (RFB	GBR				
Goldman Sachs International Bank	GBR	60.0	6 months		
Sumitomo Mitsui	GBR	30.0	6 months		
Standard Chartered Bank	GBR	60.0	6 months		
Handlesbanken	GBR	40.0	365 days		
Nationwide Building Society	GBR	40.0	6 months	-	-
Leeds Building Society	GBR	20.0	3 months	-	-
High Quality Foreign Banks					
National Australia Bank	AUS	30.0	365 days	-	-
Commonwealth Bank of Australia	AUS	30.0	365 days		
Toronto-Dominion Bank	CAN	30.0	365 days		
Credit Industriel et Commercial	FRA	30.0	6 months	-	-
Landesbank Hessen-Thueringen Girozentrale (Helaba)	GER	30.0	365 days		
DBS (Singapore)	SING	30.0	365 days		
Local Authorities					
County / Unitary / Metropolitan / District Councils		20.0	365 days	5.0	5 years
Police / Fire Authorities		20.0	365 days	5.0	5 years
National Park Authorities		20.0	365 days	5.0	5 years
Other Deposit Takers					
Money Market Funds		20.0	365 days	5.0	5 years
Property Funds		5.0	365 days	5.0	10 years
UK Debt Management Account		100.0	365 days	5.0	5 years

Based on data as 31 December 2020

North York Moors National Park Authority annual investment strategy 2021/22 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
Term Deposits with Housing Associations less than 1 year		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

SCHEDULE B

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*)	Government Backed	After consultation with Treasury Management Advisor

North York Moors National Park Authority investment strategy 2021/22 – non-specified investments

Investment	Security Minimum Credit Rating	Circumstances of Use	Max % of total investments	Maximum investment with any one counterparty	Max. maturity period
Term Deposit with credit rated deposit takers (Banks & Building Societies), UK Government and other Local Authorities with maturities greater than 1 year	Organisations assessed as having "high credit quality" under the Credit Worthiness Policy	In-house	100% of agreed maximum proportion of Core Cash funds (£40m)	£5m	5 years
Certificate of Deposit with credit rated deposit takers (Banks & Building Societies) with maturities greater than 1 year Custodial arrangements prior to purchase	Organisations assessed as having "high credit quality" under the Credit Worthiness Policy	Fund Manager or In-house "buy & hold" after consultation with Treasury Management Advisor	100% of agreed maximum proportion of Core Cash funds (£40m)	£5m	5 years
Callable Deposits with credit rated deposit takers (Banks & Building Societies) with maturities greater than 1 year	Organisations assessed as having "high credit quality" under the Credit Worthiness Policy	In-house	50% of agreed maximum proportion of Core Cash funds (£20m)	£5m	5 years
Term Deposits with Housing Associations with maturities greater than 1 year	Organisations assessed as having "high credit quality" under the Credit Worthiness Policy	In-house	25% of agreed maximum proportion of Core Cash funds (£10m)	£5m	5 years
Forward Deposits with a credit rated Bank or Building Society > 1 year (i.e. negotiated deal period plus period of deposit)	Organisations assessed as having "high credit quality" under the Credit	In-house	25% of agreed maximum proportion of Core Cash	£5m	5 years

SCHEDULE B

Investment	Security Minimum Credit Rating	Circumstances of Use	Max % of total investments	Maximum investment with any one counterparty	Max. maturity period
	Worthiness Policy		funds (£10m)		
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	AA or Government backed	Fund Manager or In-house "buy & hold" after consultation with Treasury Management Advisor	25% of agreed maximum proportion of Core Cash funds (£10m)	n/a	5 years
Bonds issued by Multilateral development banks (as defined in SI2004 No534) with maturities in excess of 1 year Custodial arrangements required prior to purchase	AA or Government backed	Fund Manager or In-house "buy & hold" after consultation with Treasury Management Advisor	25% of agreed maximum proportion of Core Cash funds (£10m)	£5m	5 years
UK Government Gilts with maturities in excess of 1 year **Custodial arrangements required prior to purchase**	Government backed	Fund Manager	25% of agreed maximum proportion of Core Cash funds (£10m)	n/a	5 years
Collateralised Deposit	UK Sovereign Rating	In-house	25% of agreed maximum proportion of Core Cash funds (£10m)	n/a	5 years

Appendix C, North York Moors National Park Authority

Capital Strategy

1. Background

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

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

(a) Capital Expenditure (Section 2)

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

(b) Capital Financing and Borrowing (Section 3)

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

(c) Alternative Investments (Section 4)

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

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

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

2. Capital expenditure - capitalisation policy

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

will be held for use in the delivery of services, for rental to others, investment or for administrative purposes; and

are of continuing benefit to the Authority for a period extending beyond one financial year.

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

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

where the Authority has no direct future control or benefit from the resulting assets, but would treat the expenditure as capital if it did control or benefit from the resulting assets; and

where statutory regulations require the Authority to capitalise expenditure that would not otherwise have expenditure implications according to accounting rules.

Governance

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

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

Capital Expenditure and Funding Plans

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

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

Capital grants and contributions - amounts awarded to the Authority in return for past or future compliance with certain stipulations.

Capital receipts - amounts generated from the sale of assets and from the repayment of capital loans, grants or other financial assistance.

Revenue contributions - amounts set aside from the revenue budget in the Reserve for Future Capital Funding.

Borrowing - amounts that the Authority does not need to fund immediately from cash resources, but instead charges to the revenue budget over a number of years into the future.

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

3. Capital financing requirement and borrowing

Context

3.1 The 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 2019/20, and the estimates for 2020/21 through to 2023/24, 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 2019/20 and forward projections, updated for the latest capital expenditure plans, for the current and forthcoming years are as follows:

Item	2019/20 Actual £000	2020/21 Probable £000	2021/22 Estimate £000	2022/23 Estimate £000	2023/2 Estimate £000
Capital Borrowing	0.0	0.0	0.0	0.0	0.0
Other Long Term Liabilities	177.9	177.7	177.6	177.3	177.1
Total Capital Financing Requirement	177.9	177.7	177.6	177.3	177.1

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

External Borrowing Limits

3.8 The Authority is only permitted to borrow externally (including via credit arrangements) up to the level implied by its Capital Financing Requirement (CFR). To ensure that external borrowing does not exceed the CFR, other than in the short term, limits are established for external debt, as follows:

Authorised limit – this defines the maximum amount of external debt permitted by the Authority, and represents the statutory limit determined under section 3 (1) of the Local Government Act 2003.

Operational boundary – this is an estimate of the probable level of the Authority's external debt, and provides the means by which external debt is managed to ensure that the 'authorised limit' is not breached.

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

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

Borrowing strategy

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

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

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

Minimum revenue provision

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

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

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

4. Alternative investments - Introduction

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

5. Chief Finance Officer's statement

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

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

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

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

Recommending clauses, treasury management policy/practices for approval, reviewing regularly, and monitoring compliance;

submitting regular treasury management reports;

submitting regular budget reports;

reviewing the performance of the treasury management function;

ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;

ensuring the adequacy of internal audit, and liaising with external audit;

recommending the appointment of external service providers;

preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management;

ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money;

ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority;

ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing;

ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources;

ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities;

provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees;

ensuring that members are adequately informed and understand the risk exposures taken on by an authority;

ensuring that the authority has adequate expertise, either in house or externally provided;

creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed.

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