Appendix 2 Annual Treasury Management and Investment Strategy

1. Borrowing

The Authority may borrow for two reasons:

(i) To fund its capital programme within the Prudential Code limits,

and

(ii) temporarily pending the receipt of revenue monies.

2. The main source of any new long term borrowing will be from the Public Works Loans Board (PWLB). No other form of borrowing will be used except for "operating leases" approved mainly for the provision of vehicles and plant, if considered to be cost effective.

3. Where the Authority is financing capital expenditure over a long term period (up to 25 years) the policy will be to seek fixed interest rate borrowing over the same time period in order to reduce overall interest rate risk in future budgets.

4. The Prudential Code requires the Authority to agree and monitor a number of prudential indicators with the objective of controlling and managing the Authority's overall debt exposure. These indicators are mandatory, but can be supplemented with local indicators if this aids interpretation; no local indicators are currently used. The indicators cover affordability, prudence, capital expenditure and debt levels. The main benefit to the Authority is that there remains no external restriction on capital investment, subject to Government reserve powers to restrict borrowing for national economic reasons.

5. Overview

Members approved the Authority's Capital Strategy in October 2011 and received an appraisal of the current status of planning for Capital in paragraphs 12 to 15 of the February budget report. There are no changes in approach since these two reports were approved.

The Authority has used its borrowing powers primarily to guarantee value for money savings by investing in cost to save measures. To date, borrowing from the Public Works Loan Board has been restricted to the Aldern House refurbishment project and the replacement of vehicles. The approved borrowing for the Information and Communications Technology Strategy is capable of being financed predominantly from revenue funds, in line with the Capital Strategy approved by the Authority in October 2011.

Amongst National Parks in England there has been surprisingly limited use of borrowing powers; other National Parks have tended to make use of the other sources of funds, including capital receipts. In the short to medium term, the Peak District National Park Authority has approved the use of £463,000 of capital receipts to pursue environmental projects and some minor works (as approved in the Capital Strategy in October 2011) and has also approved a number of temporary property interventions in support of its primary purposes. Disposal of two properties have been approved by Members and consideration of disposal of a number of minor woodlands is likely to result in the availability of approximately £800,000 for re-investment purposes. The predominant need for capital investment during this period is likely to arise from income generating proposals where assets need a degree of enhancement or refurbishment and, providing the revenue return from these projects is sufficient to meet any debt repayments, the authorised limits set out below will allow for a number of these to be approved when the business cases are brought forward for approval to either Members or, if under £150,000, Resource Management Team.

This approach is consistent with the first working assumption outlined in the Capital Strategy report, “that the capital investment needs of services with trading or other financial objectives should be met from trading or business plan income or existing revenue budgets”. The size of some of these proposals however requires consideration of a number of possible funding sources, including grant and partnership funding; the fact that the number of possible investments exceeds the financing available will require a ranking of, and choice between, these projects to determine which meet best financial and operational objectives. The figures also include an estimate for vehicle replacements in 2017/18 of approximately £600,000, reflecting the likelihood that the majority of the vehicles operated by the Authority will need replacement in that year (current revenue budgets allow for the debt repayments over a seven year life and the ability to finance replacements formed part of the original Capital Strategy), although some vehicles’ lives may be extended. Any decision on replacements will need committee authority and will reflect underlying strategic decisions on operations.

Members have delegated to officers decisions to borrow for capital projects under £150,000, subject to the Authorised Limit and an annual analysis of these decisions in this report. There has been one approval this year, which, although delegated in terms of its amount, was brought to the Audit, Resources and Performance committee in January:-

Minute	**Date**	**Approval**	**Reason**	**Amount financed from internal funds**	**Amount borrowed from PWLB**	**Annual charge to budget**	**Ending**
Minute 11/15	23/01/2015	£60,000	North Lees Campsite	£0	£0	Est £5,154	2030/1

6. **Actual and Estimate of Total Capital Expenditure to be incurred** – these figures represent best estimates. As the title suggests, the figures include total expenditure on capital items, including assets financed from revenue, capital grants or use of capital receipts, as well as borrowing. The estimates for future capital expenditure tend to be aggregations of a number of capital projects already delegated to officers (e.g. refurbishment of tenanted properties, ICT expenditure etc) projects already approved by Members (e.g. the minor works projects of £213,000 and environmental improvements of £250,000), plus a limited projection of some potential expenditure which may be approved in future, though these latter items will be subject to future decision.

	Actual 2013/14 £	**Estimate 2014/15 £**	**Estimate 2015/16 £**	**Estimate 2016/17 £**	**Estimate 2017/18 £**
Total Capital Expenditure	**331,271**	**242,000**	**935,000**	**1,579,000**	**1,113,000**
Financed from Grants	(3,255)	(0)	(0)	(0)	(0)
Financed from revenue	(152,744)	(93,000)	(183,000)	(163,000)	(163,000)
Financed from capital receipts	(57,286)	(119,000)	(322,000)	(916,000)	(120,000)
Net Total (financed from borrowing)	**117,986**	**30,000**	**430,000**	**500,000**	**830,0000**

Under current economic circumstances it is likely that a high proportion of the total to be financed from borrowing will be temporarily financed from cashflow as this is likely to be more cost effective in the short to medium term, as loan interest rates remain higher than interest received on cashflow surpluses.

7. **Actual and Estimate of Capital Financing Requirement (C.F.R) –** The underlying need to borrow for capital purposes, after all other sources of capital financing available in each year are taken into account (i.e. after direct support of capital expenditure from revenue, capital grants or use of capital receipts). The CFR will rise from 2015/16 onwards reflecting the potential for capital investment supporting income generating projects, assuming they are viable when business cases are presented for approval.

	Actual 2013/14 £	**Estimate 2014/15 £**	**Estimate 2015/16 £**	**Estimate 2016/17 £**	**Estimate 2017/18 £**
C.F.R	937,790	870,325	1,050,860	1,383,681	2,152,502

Affordability

8. **The ratio of financing costs to overall net revenue stream** – These indicators identify the proportion of financing costs measured against overall net revenue. Financing costs are the annual principal and interest payments on the estimated debt outstanding. Overall net revenue is the core National Park Grant.

	Actual 2013/14 £	**Estimate 2014/15 £**	**Estimate 2015/16 £**	**Estimate 2016/17 £**	**Estimate 2017/18 £**
Borrowing Costs	125,317	137,526	297,867	222,557	259,150
Net Revenue	6,960,536	6,257,122	6,000,000	6,000,000	6,000,000
Percentage	1.80%	2.20%	4.96%	3.71%	4.32%

The ratio increases over the period reflecting the possible increase in capital investments mentioned above, with the ratio not helped by the reductions in National Park Grant. The amounts are still considered to be affordable as the borrowing costs will be met largely from additional income sources and not National Park Grant. The average for County Councils and Districts is 9%, within a range of 5%-13%.

Prudence

9. **Net Borrowing and the Capital Financing Requirement** – This indicates the net long term debt outstanding for the Authority, after accounting for the availability of any temporary invested sums, in the previous, current and next three financial years.

	Actual 2013/14 £	**Estimate 2014/15 £**	**Estimate 2015/16 £**	**Estimate 2016/17 £**	**Estimate 2017/18 £**
Capital Financing Requirement	937,790	870,325	1,050,860	1,383,681	2,152,502
Temporary investments	(4,530,949)	(3,000,000)	(2,500,000)	(2,500,000)	(2,000,000)
Net External Borrowing	(3,593,159)	(2,129,675)	(1,449,140)	(1,116,319)	152,502

The excess of investments over capital borrowing mainly reflect the quarterly claims of National Park Grant drawn down in advance of expenditure, to meet working capital needs. The level of borrowing is considered to be prudent.

10. **The Authorised Limit** – This represents the limit beyond which borrowing is prohibited, and needs to be set and revised if necessary by members. It is recommended that the limit is set at the following levels to reflect the Capital Financing Requirement, plus a margin to allow some flexibility within the estimated levels of capital expenditure. The limit remains the same for 2015-16 as the previous year.

	2015/16	**2016/17**	**2017/18**
	£m	**£m**	**£m**
Borrowing	1.8	2.0	2.5
Other Long Term Liabilities	NIL	NIL	NIL
Total	**1.8**	**2.0**	**2.5**

11. **The Operational Boundary** – This indicator is based on the probable external debt during the course of the year; it is not a limit and actual borrowing could vary around this boundary for short times during the year.

	2014/15	**2015/16**	**2016/17**
	£m	**£m**	**£m**
Borrowing	1.2	1.5	2.3
Other Long Term Liabilities	NIL	NIL	NIL
Total	**1.2**	**1.5**	**2.3**

Actual External Debt – This is actual borrowing plus actual other long-term liabilities at a certain point in time.

	Actual	**Actual**	**Estimate**
	2012/13	**2013/14**	**2014/15**
	£	**£**	**£**
External Debt	844,860	752,269	657,066

12. The Chief Finance Officer will monitor the application of these prudential indicators, as required by the Code, and will bring forward to the Authority any significant deviation. The CFO is required to bring a report specifically to the Authority if the Authorised Limit is likely to be breached, for the Authority to determine whether the limit should be raised, or whether alternative procedures to keep within the existing limit are appropriate.

13. **Fixed and Variable Rate Exposures, Maturity Structures, Longer Term Investments**

(i) **Interest Rate Exposures - Fixed Rate** – The Authority should set an upper limit on its fixed interest rate exposures for 2015/16, 2016/17 and 2017/18 of 100% of its net outstanding principal sums.

(ii) **Interest Rate Exposures – Variable Rates** – The Authority should set an upper limit on its variable rate interest rate exposures for 2015/16, 2016/17 and 2017/18 of 100% of its net outstanding principal sums.

(iii) **Maturity Structure of Borrowing – Upper and Lower Limits for Maturity Structure –** The Authority is likely to have most new debt at a maximum of 25 years, although in circumstances when the life of an asset is less the period may be shorter;

to allow maximum flexibility there are no restrictions proposed on the maturity structure of debt.

(iv) **Total Principal Sum Invested for Period Longer than 364 Days**
Investment of sums for periods longer than 364 days is restricted to 20% of overall funds in line with NYCC's Investment Strategy.

Minimum Revenue Provision

14. The Minimum Revenue Provision is the amount Local Authorities are required to set aside each year from their revenue account, in order to ensure that provision is made annually for the repayment of outstanding loan principal as well as interest charges. The broad aim of this is to ensure that debt is repaid over a period reasonably commensurate with the period over which the capital expenditure provides benefits.

15. The Peak District National Park Authority has adopted the Asset Life Method, which ensures that the Revenue Provision is calculated based on the estimated useful life of the underlying asset. This method should help to ensure that budgetary provision for debt repayments is linked to the life of assets purchased, ensuring that funds are available for replacement of assets when the end of their useful life is reached. The actual MRP calculation is based on the annuity option so the MRP increases over the life of the underlying asset supported by the debt (the interest charge correspondingly decreasing, leaving the debt repayment value constant).

16. Investing

This relates to the temporary loan of revenue funds/capital receipts pending their use. The timing of the main sources of the Authority's income are agreed with the Government with the aim of broadly matching expenditure, however, it is anticipated that the Authority will have surplus cash to lend.

17. Interest receipts are very sensitive to changes in interest rates and cash flows. Although cashflows are not expected to be affected significantly in 2015/16, base interest rates are currently 0.5% and the 2015/16 budget assumes base rates will remain at this level, although there is an expectation that the actual investment rate achieved will be in the region of 0.6% p.a., and hopefully higher if market conditions improve.

18. It is recommended that surplus funds are invested only North Yorkshire County Council who will pay interest at an appropriate money market rate on this cash. This policy meets the Authority's objectives of ensuring a return on its surplus funds while minimising risk, and is consistent with DCLG guidelines on investment strategy.

19. The Authority's funds available for investment represent an average of about £3m during the year, whereas the investment framework for North Yorkshire County Council's portfolio encompasses nearly £700m of investment, supported by their in-house professional team and professional investment advice. The Authority's investments with North Yorkshire County Council are managed by way of a three year Service Level Agreement, subject to a six month notice period. This contract in 2015/16 will be in its second year of operation.

20. In order to ensure that investments made by NYCC on behalf of the Authority adhere to our own Investment Strategy, the Authority is required to adopt/adhere to the NYCC Investment Strategy and the approved 2014 NYCC Investment Strategy is appended, for adoption by this Authority, in Appendix 3. If Members wish to see the full NYCC Treasury Management report, a copy is available from the Head of Finance; the report contains economic data and forecasts which may be of interest.

21. The Treasury Management Services to be provided by NYCC include, but is not limited, to the following:

(i) A daily sweep of the Authority's bank accounts will be made to transfer the credit/debit balance on the accounts to/from NYCC

(ii) Funds transferred through the daily sweep facility will be invested together with funds of NYCC and those of other organisations for whom it provides a Treasury Management Service

(iii) Investment of sums in accordance with the agreed Treasury Management Strategy including the adherence to any procedures specified in the statement

(iv) The calculation of interest due to the Authority at a daily rate

(v) The transfer of interest earned to the Authority on a quarterly basis

(vi) Provision of quarterly details of interest earned to the Authority

(vii) Support and information on investment reporting as required

22. The Authority's funds are pooled with those of other bodies, and the arrangement therefore requires a joint sharing in the rates of return, but also a shared risk. The precise arrangements are as follows:-

(i) NYCC collects all available balances from the Authority and other organisations using the NYCC Treasury Management service and pools with NYCC funds. These aggregated balances are then invested in accordance with the agreed Investment Strategy.

(ii) For practical purposes therefore every investment contains an element of each organisation's balances and no individual loan is earmarked as solely the funds of one particular organisation.

(iii) In the event of a default of an individual loan, each organisation using the NYCC Treasury Management service shall bear a consequential loss. The extent of that loss for the Authority and other organisations will be calculated based on the balances of the Authority and other organisations on the day of default. For example:

£1m defaulted loan

	Daily Balance £k	*%*	*Share of Loss £k*
NYCC	175,000	86.5	865
PDNPA	5,000	2.5	25
Authority A	9,000	4.5	45
Authority B	3,000	1.5	15
Authority C	3,000	1.5	15
Authority D	7,000	3.5	35
Total	202,000	100.0	1,000

In addition, NYCC agrees that the Default Loan procedure will *not* apply if the actions of NYCC in the money market are clearly proven to have been contributory to any loss(es) of the Authority's funds managed under the terms of the Agreement.

23. NYCC calculates an average rate of interest earned on the total pooled investment on a monthly basis.

24. Interest Rate Strategy

Short term interest rates will impact on the interest earned by the Authority on its deposits with the County Council. The Authority has reduced the risk considerably in its revised approved 2015/16 Budget, with a low assumption of 0.6% for the year ahead.

Longer term interest rates are more relevant for the funding of the capital programme.

Any new longer term borrowing will be determined according to its availability and interest rate levels, within the authorised limits approved.

25. Exchange Rate Strategy

The Authority will manage its exposure to fluctuations in foreign exchange rates so as to minimise any detrimental impact on its budgeted income / expenditure levels. This may involve a hedging transaction (i.e.a forward exchange contract) with the specific intention only of reducing the organisation's exposure to an adverse exchange rate risk.

On 21st November 2014 the Budget Monitoring Group received a paper from the Chief Finance Officer on the Moorlife project, seeking approval of a forward contract for the final tranche of European grant, to protect the Authority from the volatility being experienced in the Euro Sterling exchange market. Approval was given and on the 16th January 2015, the Chief Finance Officer agreed a forward contract with Barclays Bank for the exchange of 1,350,000 Euros on the 29th January 2016 at an exchange rate of 1.3051 Euros to the £. This action was necessary to ensure that the Moorlife project was able to be brought to a conclusion within budget. At the time of writing this report, based on the prevailing exchange rate, this forward contract has protected the Authority from a loss of £73,344.