Peak District National Park Authority

Treasury Management Strategy Statement 2024/25

1. Introduction:

1.1. The Treasury Management Strategy Statement (TMSS) is a key part of our financial management framework, supporting the National Park Authority by managing our financial resources effectively and sustainably. It oversees our cash flows, borrowing, and investments, with a strong emphasis on risk management and the pursuit of optimal performance.

1.2. The TMSS ensures we have robust procedures for identifying, evaluating, and mitigating risks in line with the CIPFA Code of Practice on Treasury Management. This risk-aware approach supports the long-term success of the Authority by ensuring resources are available to achieve its strategic objectives.

2. Contents of the TMSS include:

2.1.1. Statutory and Regulatory Framework
2.1.2. Treasury Management Policy Statement
2.1.3. Annual Investment Strategy
2.1.4. Interest Rate Strategy
2.1.5. Borrowing Strategy
2.1.6. Prudential and Treasury Indicators
2.1.7. Minimum Revenue Provision Policy

3. Statutory and Regulatory Framework:

3.1. The Local Government Act 2003 mandates local authorities to operate their treasury management activities within a legal framework. The key points of the Act are:

3.1.1. Power to Borrow: Local authorities in the UK have the power to borrow money to finance their services and capital projects. This power is granted under the Local Government Act 2003. The borrowing can be for any purpose relevant to their functions or for the prudent management of their financial affairs.

3.1.2. Control of Borrowing: There are controls in place to manage local authority borrowing. The government has statutory powers to directly address instances of highly risky practices in local government capital systems. These controls are designed to protect taxpayers' money while supporting local freedoms for much-needed investment.

3.1.3. Affordable Borrowing Limit: Local authorities have a duty to determine an affordable borrowing limit. This limit is related to the revenue streams available to the local authority, which it can use to repay the debt. The aim is to ensure that borrowing is financially sustainable and does not impact service delivery.

3.1.4. Power to Invest: Local authorities also have the power to invest for any purpose relevant to their functions or for the purposes of the prudent management of their financial affairs. This power covers all of the financial assets of a local authority held primarily, or partially to make a profit.

3.1.5. Risk Management: Risk management is a key aspect of local authority operations in England. It involves setting out a structured approach that enables potential risks that could impact the achievement of the intended outcomes to be identified, analysed, and mitigated. The aim is to anticipate potential issues and challenges that could negatively impact the delivery of services and put in place actions to avoid risks materialising wherever possible.

3.1.6. Security for Money Borrowed: There are provisions in place for security for money borrowed by local authorities. All money borrowed must be secured on all the revenues of the local authority. This means that a local authority cannot mortgage or charge any of its property as security for money it has borrowed. The regulations make any security granted in breach of the regulations unenforceable.

3.2. In accordance with the Act, the Authority is mandated to establish a Treasury Strategy for borrowing and to formulate an Annual Investment Strategy. This strategy outlines the Authority's policies for borrowing, managing its investments, and prioritising the security and liquidity of those investments.

3.3. The Prudential Code is a professional code of practice that aims to ensure local authorities' financial plans are affordable, prudent and sustainable. The updated Prudential Code includes strengthened provisions for prudent investing, definitions and disclosures for service, treasury and commercial investments.

3.4. The Treasury Management Code of Practice provides a clear definition of treasury management activities. The main changes to the updated Treasury Management Code include investment management practices and other recommendations relating to non-treasury investments are included within the Treasury Management Practices (TMPs) alongside existing TMPs.

3.5. These codes form part of the regulatory framework within which local authorities operate, and they are required to 'have regard to' their provisions. The codes have been developed to meet the needs of local authorities (including National Parks), registered social landlords, further and higher education institutions, and NHS trusts.

4. Treasury Management Policy Statement:

4.1. The Authority defines its Treasury Management activities as "The management of the organisation'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".

4.2. The identification, monitoring and control of risk is the primary criterion by which the effectiveness of Treasury Management activities will be measured, with value for money an important but secondary objective.

4.3. The Annual Treasury Management and Investment Strategy sets out the means by which the above objectives will be achieved.

4.4. The Peak District National Park Authority has determined responsibilities for Treasury Management within its Standing Orders as follows:

4.5. Investments and Borrowing:

4.5.1. The Authority maintains a treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities; and adopts suitable Treasury Management Practices, setting out the manner in which the organisation will manage and achieve those policies and objectives.

4.5.2. The Authority receives reports on its treasury management policies, practices and activities, including as a minimum, an annual strategy and plan in advance of the year, and an annual report after its close.

4.5.3. The Authority delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Budget Monitoring Group, and for the execution and administration of treasury management decisions to its Chief Finance Officer, who will act in accordance with the organisation's policy statement and Treasury Management Practices, and CIPFA's Standard of Professional Practice on Treasury Management.

4.5.4. Members of the Peak District National Park, during the full Authority meeting, are responsible for scrutinising the Treasury Management strategy and policies. Additionally, the Authority's borrowing limits receive annual approval based on advice from the Chief Finance Officer.

4.6. Treasury Management Practices (TMPs):

4.6.1. The Chief Finance Officer is responsible for designing, implementing, and monitoring arrangements to ensure proper control of Treasury Management activities. These arrangements will operate within the constraints outlined in the Annual Treasury Management and Investment Strategy. The activities will be categorised into the following 12 'treasury management practices' or subject areas as defined by the CIPFA Code of practice on Treasury Management:

4.6.2. Risk Management:

- 4.6.2.1. Credit & Counter-party risk – The security of sums invested
- 4.6.2.2. Liquidity Risk Management – working capital requirements
- 4.6.2.3. Interest Rate Risk – exposure to fluctuations in interest rates
- 4.6.2.4. Exchange rate risk – fluctuations in exchange rates
- 4.6.2.5. Re-financing risk – terms of renewal
- 4.6.2.6. Legal and Regulatory risk – compliance
- 4.6.2.7. Fraud, error, corruption – suitable systems and procedures
- 4.6.2.8. Market Risk – protection of principal sums invested

4.6.3. Performance Measurement: Consideration of alternative methods of delivery and performance indicators

4.6.4. Decision Making & Analysis: Maintenance of records of decisions

4.6.5. Approved Instruments, Methods & Techniques: Subject to those approved in the Annual Strategy, or by specific resolution of Authority committee

4.6.6. Organisation, Clarity and Segregation of Responsibilities and dealing Arrangements: Responsibilities and procedures for transactions and staff handling of financial transactions

4.6.7. Reporting Arrangements: Standing Orders Section K above sets out the respective Member and Officer responsibilities

4.6.8. Budgeting, Accounting and Audit Arrangements: The cost of, and income arising from, Treasury Management activities will be reported in the annual Outturn report and to the Budget Monitoring Group

4.6.9. Cashflow Management: Central control and aggregation of all cash flows to ensure liquidity

4.6.10. Money Laundering: Verifying and recording the identity of counterparties

4.6.11. Training and Qualifications: Experience and training in Treasury Management activities

4.6.12. Use of External Service Providers: Monitoring and procurement of external advice

4.6.13. Corporate Governance: Assessment of effectiveness of Treasury Management activities.

5. Annual Investment Strategy:

5.1. The Annual Investment Strategy serves as a strategic plan for the Authority to effectively manage its surplus funds. These funds, which are allocated for specific reserves, are projected for use in the forthcoming years. In the short-term, the Authority prudently invests these funds to generate returns, thereby ensuring an efficient management of the reserve balances. This approach not only maximises the value of the reserves, but also contributes to the financial sustainability of the Authority.

5.2. The Authority's Treasury Management function, including investments, is managed by North Yorkshire Council (NYC) under a Service Level Agreement (SLA). This partnership takes advantage of the Council's expertise in treasury management to manage the Authority's finances effectively and professionally. It also demonstrates our commitment to teamwork and efficient use of resources, which in turn enhances the performance of our treasury management practices.

5.3. The current 3-year SLA runs to April 2025, subject to a 6-month notice period.

5.4. It is advised that any excess funds should be invested solely with NYC, which will provide interest at a suitable money market rate on this capital. This approach aligns with the Authority's goals of securing a return on its surplus funds while reducing risk, and it adheres to the DLUHC's guidelines on investment strategy.

5.5. To achieve alignment of financial objectives, effective risk management, and transparency, the Authority should adopt NYC's 2024 Annual Investment Strategy for its investments. This strategy received approval from the NYC Full Council in January 2024 and is attached as an appendix.

5.6. The Treasury Management Services provided by NYC include, but is not limited, to the following:

5.6.1. A daily sweep of the Authority's bank accounts will be made to transfer the credit/debit balance on the accounts to/from NYC.

5.6.2. Funds transferred through the daily sweep facility will be invested together with funds of NYC and those of other organisations for whom it provides a Treasury Management Service.

5.6.3. Investment of sums in accordance with the agreed Treasury Management Strategy including the adherence to any procedures specified in the statement.

5.6.4. The calculation of interest due to the Authority at a daily rate.

5.6.5. The transfer of interest earned to the Authority on a quarterly basis.

5.6.6. Provision of quarterly details of interest earned to the Authority.

5.6.7. Support and information on investment reporting as required.

5.6.8. Contingency arrangements for the provision of s151 Officer Advice.

5.7. 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:

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

5.7.2. 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.

5.7.3. In the event of a default of an individual loan, each organisation using the NYC 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**	**Share of Loss**	**Share of Loss**
Customer	**£k**	**%**	**£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**	**1,000**

5.8. In addition, NYC agrees that the Default Loan procedure will not apply if the actions of NYC 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.

6. Interest Rate Strategy:

6.1. While the investment of surplus balances is managed by NYC under the treasury management SLA, it remains crucial for the Authority to keep a close eye on national interest rates. This vigilance ensures that the forecasts in the Medium-Term Financial Plan (MTFP) remain relevant and accurate.

6.2. The current annual MTFP budget for interest receipts stands at a conservative £110k. However, the interest earned in the fiscal year 2023-24 is projected to reach £470k, due to the prevailing favourable interest rates with NYC of approximately 4.7% (as of December 2023).

6.3. Given the Bank of England's expected Base Rate stability of 5.25% until at least the latter half of 2024, the Authority should incorporate this factor when projecting short-term interest receipts. Other considerations include:

6.4. Long-term Borrowing: The Authority should evaluate the Public Works Loan Board (PWLB) certainty rates for long-term borrowing needs. If these rates are advantageous, the Authority might consider securing some long-term borrowing to finance its capital projects. However, due to substantial reserve balances, internal borrowing remains the preferred option.

6.5. Potential Rate Cuts: The Authority should be prepared for possible rate cuts, which are anticipated to commence once the Consumer Price Index (CPI) inflation and wage/employment data support such a move. These cuts could affect the return on the Authority's investments and the cost of its borrowings.

6.6. Economic Recession: Given the potential for the broader economy to experience at least a mild recession in the coming months, the Authority should ensure it has adequate liquidity to weather any potential financial shocks.

6.7. International Factors: The Authority should also consider international factors that could influence interest rates. These include policy developments in the US and Europe, the introduction of new support packages to bolster the faltering recovery in China, and ongoing conflicts.

6.8. Regular Review: The Authority should routinely reassess its interest rate strategy in light of fresh economic data releases, clarifications from the Monetary Policy Committee (MPC) regarding its monetary policies, and changes in the Government's fiscal policies.

7. Borrowing Strategy:

7.1. A considered approach to borrowing is crucial for sound financial management and compliance with the CIPFA Code. This strategy presents our debt management strategy, which aligns with our financial aims, acceptable levels of risk, and overall fiscal stability.

7.2. Objectives:

7.2.1. Considered Borrowing: We ensure our borrowing is sensible, supporting our capital programme while adhering to the Prudential Code's boundaries and avoiding unnecessary financial commitments.

7.2.2. Interest Rate Management: Preferring fixed-rate, long-term financing helps us manage interest rate fluctuations, consistent with our prudential indicators.

7.2.3. Compliance & Strategic Planning: Our treasury practices adhere to the CIPFA code, focusing on long-term fiscal health and regular debt assessments to maintain alignment with borrowing standards.

7.3. Legal Framework:

7.3.1. We operate within a set legal and regulatory context, which includes:

7.3.2. Prudential Code for Capital Finance: Encourages responsible borrowing for viable capital investments and asset protection.

7.3.3. Local Government Act 2003: Sets out the statutory borrowing framework we must follow.

7.3.4. PWLB Guidance: Details the procedures for borrowing for capital purposes.

7.4. Borrowing Sources:

7.4.1. We have several borrowing options, including market loans, PWLB, municipal bonds, or internal funds. We prefer to use our cash reserves with North Yorkshire Council for financial benefit before seeking external borrowing.

7.4.2. Currently, we have a PWLB loan due in 2031.

7.5. Risk Management:

7.5.1. Liquidity Planning: We manage liquidity risks by avoiding early borrowing and ensuring prompt communication of significant financial decisions.

7.5.2. Borrowing Limits: We do not engage in speculative borrowing, and any proactive borrowing is carefully assessed for its cost-effectiveness.

7.5.3. Debt Rescheduling: While not expected due to the current interest rates, we keep the option of debt rescheduling under consideration.

8. Prudential and Treasury Indicators:

8.1. The Authority's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist Members' overview and confirm capital expenditure plans.

8.2. Capital expenditure and financing: This indicator shows the planned and actual capital expenditure forecast:

Capital Expenditure	Forecast 2023/24	Estimate 2024/25	Estimate 2025/26	Estimate 2026/27	Estimate 2027/28
	£'000s	£'000s	£'000s	£'000s	£'000s
Total Capital Expenditure	**1,047**	**3,108**	**1,285**	**65**	**425**

These figures represent best estimates for capital expenditure. The estimates combine various delegated capital projects (e.g., property refurbishment, ICT spending) and approved projects (e.g., Trails infrastructure at £0.460m, North Lees Estate at £0.300m). Additionally, they include an estimate of pending items awaiting approval in the Capital Strategy refresh. These values serve as indicative forecasts without any binding commitments.

8.3. The following table summarises the above capital expenditure plans, their funding sources (capital or revenue), and identifies any net financing needs (anticipated borrowing requirements).

Financing of Capital Expenditure	Forecast 2023/24	Estimate 2024/25	Estimate 2025/26	Estimate 2026/27	Estimate 2027/28
	£'000s	£'000s	£'000s	£'000s	£'000s
Capital Grants	(524)	(304)	0	0	0
Revenue Contribution	(239)	(344)	(265)	(65)	(65)
Capital Receipts	(284)	(650)	(200)	0	0
Net financing need	**0**	**1,810**	**820**	**0**	**360**

8.4. Capital financing requirement (CFR): The second prudential indicator is the Authority's CFR. The CFR is the total historic outstanding capital expenditure which has not yet been financed from either revenue or capital resources. It is a measure of the Authority's indebtedness and so underlying borrowing need. Any capital expenditure above, which has not been financed through a revenue or capital resource, will increase the CFR.

8.5. The CFR does not increase indefinitely, as the Minimum Revenue Provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each asset's life and charges the economic consumption of capital assets as they are used.

	Actual 2022/23 £'000s	Estimate 2023/24 £'000s	Estimate 2024/25 £'000s	Estimate 2025/26 £'000s	Estimate 2026/27 £'000s
C.F.R	1,240	1,203	1,060	891	730

8.6. Ratio of financing costs to net revenue stream: This indicator shows the proportion of the Authority's revenue budget that is used to pay for capital financing costs, such as interest and debt repayment.

Ratio of financing costs to net revenue stream	Forecast 2023/24 £'000s	Estimate 2024/25 £'000s	Estimate 2025/26 £'000s	Estimate 2026/27 £'000s	Estimate 2027/28 £'000s
Financing Costs	173	180	181	179	194
Net Revenue	6,699	6,699	6,699	6,699	6,699
Percentage	2.59%	2.69%	2.69%	2.67%	2.90%

Financing costs are the annual principal and interest payments on the estimated debt outstanding. Overall net revenue is the core National Park Grant. The ratio increases in the later periods reflecting the increases in interest rates and possible increase in capital investments. 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.

8.7. 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:

Operational Boundary	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
Borrowing	2.25	2.5	2.5	2.5
Other Long Term Liabilities	NIL	NIL	NIL	NIL
Total	**2.25**	**2.5**	**2.5**	**3.5**

8.8. Authorised limit for external debt: This represents the limit beyond which borrowing is prohibited. 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.

Authorised Limit	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
Borrowing	2.5	3.0	3.0	3.0
Other Long Term Liabilities	NIL	NIL	NIL	NIL
Total	**2.5**	**3.0**	**3.0**	**3.0**

9. Minimum Revenue Provision Policy Statement:

9.1. The Minimum Revenue Provision (MRP) represents the sum that Local Authorities must allocate annually from their revenue account to repay debt. This allocation is designed to facilitate the annual repayment of both the outstanding loan principal and interest charges. The overarching objective of this provision is to align the debt repayment period with the duration over which the capital expenditure yields benefits.

9.2. With regards to the statutory guidance on MRP, the Peak District National Park Authority has implemented the Asset Life Method. This method calculates MRP based on the estimated lifespan of the underlying asset. The advantage of this approach is that it ties the budgetary provision for debt repayments to the lifespan of the assets acquired. This ensures the availability of funds for asset replacement when they reach the end of their useful life.

9.3. The actual computation of the MRP is grounded in the annuity option. As a result, the MRP escalates over the lifespan of the underlying asset supported by the debt. Conversely, the interest charge decreases, maintaining a constant debt repayment value. This method provides a balanced approach to debt management, ensuring financial stability for the authority.