NORTH YORKSHIRE COUNTY COUNCIL

INFORMAL REMOTE MEETING OF AUDIT COMMITTEE

21 MARCH 2022

TREASURY MANAGEMENT STRATEGY

Report of the Corporate Director – Strategic Resources

1.0 PURPOSE OF THE REPORT

1.1 To review the 2022/23 Treasury Management Strategy and to consider whether any comments should be proposed to the Chief Executive Officer, under his emergency delegated decision making powers, for onwards recommendation to the Executive.

2.0 In its scrutiny role of the County Council's Treasury Management policies, strategies and day-to-day activities, the Audit Committee receives regular Treasury Management reports. These reports provide Audit Committee Members with details of the latest Treasury Management developments, both at a local and national level and enable them to review Treasury Management arrangements and consider whether they wish to make any recommendations to the Executive.

2.1 As the County Council is required to approve an up to date Annual Treasury Management before the start of the new financial year, it is therefore not realistic for the Audit Committee to review this document in advance of its submission to Executive and the subsequent consideration by County Council on 16 February 2022.

2.2 As in recent years it is therefore proposed that the Treasury Management Strategy 2022/23 (Annex1) is submitted for review by the Audit Committee on 21 March 2022. Any resulting proposals for change would then be considered at a subsequent meeting of the Executive. If any such proposals were accepted and required a change to the (by then) recently approved Strategy document the Executive would submit a revised document to the County Council at its meeting on 18 May 2022.

2.3 Under his delegated decision making powers in the Officers' Delegation Scheme in the Council's Constitution, the Chief Executive Officer has power, in cases of emergency, to take any decision which could be taken by the Council, the Executive or a committee.

2.4 Following on from the expiry of the Local Authorities and Police and Crime Panels (Coronavirus) (Flexibility of Local Authority and Police and Crime Panel Meetings) (England and Wales) Regulations 2020 ("the 2020 Regulations"), which allowed for committee meetings to be held remotely, the County Council resolved at its meeting on 5 May 2021 (before the expiry of the Regulations) that, for the present time, in light of the continuing Covid-19 pandemic circumstances, remote live-broadcast committee meetings should continue as informal meetings of the committee Members, with any formal decisions required being taken by the Chief Executive Officer under his emergency decision making powers and after consultation with other Officers and Members as appropriate and after taking into account any views of the relevant Committee Members and all relevant information. This approach has been periodically reviewed since that time and will be further reviewed by full Council at its May 2022 meeting.

3.0 RECOMMENDATION

3.1 That Members review the 2022/23 Treasury Management Strategy and consider whether any comments should be proposed to the Chief Executive Officer, under his emergency delegated decision making powers, for onwards recommendation to the Executive.

GARY FIELDING

Corporate Director – Strategic Resources

March 2022

ANNEX 1

TREASURY MANAGEMENT STRATEGY 2022/23

1.0 Introduction and Context

1.1 2022/23 is the final year for establishing a Treasury Management Strategy for the County Council given the new unitary council for North Yorkshire will come into effect from 1 April 2023. The production of an emerging “shadow” strategy for the new unitary council, an aggregation of the future projections of all 8 councils, will become the start position for the new unitary North Yorkshire Council.

1.2 The County Council 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. Surplus monies are invested in low risk counterparties or instruments commensurate with the County Council’s low risk appetite, providing adequate liquidity initially before considering investment return.

1.3 The second main function of the treasury management service is the funding of the County Council’s capital plans. These capital plans provide a guide to the borrowing need of the County Council, essentially the longer-term cash flow planning, to ensure that the County Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans, or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet County Council risk or cost objectives.

1.4 The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

1.5 Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day to day treasury management activities.

1.6 CIPFA defines treasury management as:

“The management of the local authority’s borrowing, 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.”

2.0 Reporting requirements

Reporting arrangements in place relating to Treasury Management activities are highlighted below:

2.1 Capital Strategy

2.1.1 The CIPFA 2017 Prudential and Treasury Management Codes require all local authorities to prepare a capital strategy report which will provide the following:

- a high-level long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

2.1.2 Whilst acknowledging 2022/23 will be the final year for North Yorkshire County Council, the aim of this capital strategy is to ensure that all elected members on the County Council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite. Any subsequent changes in policy objectives etc following elections to the new council in May 2022 will be factored into the new council's first capital strategy, effective from April 2023.

2.1.3 This Capital Strategy [**Appendix D**] is reported separately from the Treasury Management Strategy Statement; non-treasury investments will be reported through the former. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercialism investments usually driven by expenditure on an asset.

2.1.4 Where the County Council has borrowed to fund any non-treasury investment, there should also be an explanation of why borrowing was required and why the DLUHC Investment Guidance and CIPFA Prudential Code have not been adhered to.

2.1.5 If any non-treasury investment sustains a loss during the final accounts and audit process, the strategy and revenue implications will be reported through the same procedure as the capital strategy.

2.1.6 To demonstrate the proportionality between the treasury operations and the non-treasury operation, high-level comparators are shown throughout this report.

2.2 Treasury Management reporting

2.2.1 The County Council is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.

a) **Treasury Management Strategy** (this report) – again acknowledging the implementation of a new unitary council in North Yorkshire from 1 April 2023 and aggregation of all 8 councils' spending plans, the first, and most important report is forward looking and covers:

- the capital plans, (including prudential indicators);

- a minimum revenue provision (MRP) policy, (how residual capital expenditure is charged to revenue over time);

- the treasury management strategy, (how the investments borrowings are to be organised), including treasury indicators; and

- an investment strategy, (the parameters on how investments are to be managed).

b) **A mid-year treasury management report** – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision. In addition, the County Council will receive quarterly update reports.

c) **An annual treasury report** – This is a backward looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

3.0 Scrutiny

3.1 Treasury Management reports are required to be adequately scrutinised before being recommended to the County Council. The scrutiny role is undertaken by the Audit Committee.

4.0 Treasury Management Strategy 2022/23

4.1 The Treasury Management strategy for 2022/23 covers two main areas:

a. Capital issues

- the capital expenditure plans and the associated prudential indicators; and
- the minimum revenue provision (MRP) policy.

b. Treasury management issues

- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the County Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- the policy on use of external service providers.

4.2 These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, DLUHC MRP Guidance, the CIPFA Treasury Management Code and DLUHC Investment Guidance.

5.0 Training

5.1 The CIPFA Code requires the Section 151 Officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. Member training has been provided by Treasury Management Consultants, Link Group (Link) and further training will be provided as required.

6.0 Treasury management consultants

6.1 The County Council uses Link Group, as its external treasury management advisors.

6.2 The County Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

6.3 It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The County Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

APPENDIX A

CAPITAL PRUDENTIAL INDICATORS 2022/23 – 2024/25

Acknowledging the requirements for the transition to the new unitary council but ensuring continuity of services, the following indicators and MRP Policy are based upon the County Council's capital plan for 2022/23 and the current planned expenditure for 2023/24 and 2024/25. Beyond 2022/23, spending plans and the associated Prudential Indicators will be subject to review but in order to assist in the planning for the new council indicators for 2023/24 and beyond provide a useful 'benchmark'.

1.0 Capital Expenditure

1.1 The County Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans are reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

1.2 This prudential indicator is a summary of the County Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

	2020/21 Actual £m	**2021/22 Estimate £m**	**2022/23 Estimate £m**	**2023/24 Estimate £m**	**2024/25 Estimate £m**
Capital Expenditure:					
Health & Adult Services	0.1	3.9	0.4	1.0	0.0
Business & Environmental Services	89.9	81.5	45.8	20.8	20.6
Children & Young People's Services	20.2	30.7	28.4	10.9	4.6
Central Services	9.4	26.7	8.6	1.3	1.2
Total	**119.6**	**142.8**	**83.2**	**34.0**	**26.4**
Financed by:					
Capital Grants & Contributions	-104.7	-101.1	-67.1	-29.1	-22.4
Direct Revenue Funding	-7.1	-12.5	-6.1	-3.6	-2.9
Capital Receipts	-5.7	-15.6	-3.3	-6.0	-13.1
Capital Borrowing Requirement	**2.1**	**13.6**	**6.7**	**-4.7**	**-12.0**

1.3 The net financing need for commercial activities / non-financial investments included in the above table against expenditure is shown below:

Commercial activities / non-financial investments	**2020/21 Actual £m**	**2021/22 Estimate £m**	**2022/23 Estimate £m**	**2023/24 Estimate £m**	**2024/25 Estimate £m**
Capital Expenditure	0.0	0.0	0.0	0.0	0.0
Financing costs	0.0	0.0	0.0	0.0	0.0
Net financing need for the year	0.0	0.0	0.0	0.0	0.0
Percentage of total net financing need %	0.0	0.0	0.0	0.0	0.0

As the above table shows, the County Council's Capital Plan does not include any plans to purchase commercial assets primarily for yield.

2.0 The Borrowing Need (the Capital Financing Requirement)

2.1 The second prudential indicator is the County Council's Capital Financing Requirement (CFR). The CFR is the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

2.2 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 assets life, and so charges the economic consumption of capital assets as they are used.

2.3 The CFR includes any other long-term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the County Council's borrowing requirement, these types of scheme include a borrowing facility by the PFI, PPP lease provider and so the County Council is not required to separately borrow for these schemes.

£m	**2020/21 Actual**	**2021/22 Estimate**	**2022/23 Estimate**	**2023/24 Estimate**	**2024/25 Estimate**
Capital Financing Requirement					
Capital Borrowing	303.7	276.6	282.0	279.4	265.5
Loans to Limited Companies	-15.0	15.0	6.2	-5.6	-13.1
Investment Properties	0.0	0.0	0.0	0.0	0.0
Other Long Term Liabilities (PFI / Leases)	151.6	176.2	170.6	165.4	159.9
Commercial activities / non-financial investments	0.0	0.0	0.0	0.0	0.0
Total CFR	**440.3**	**467.8**	**458.8**	**439.2**	**412.3**
Movement in CFR		**27.5**	**-9.0**	**-19.6**	**-26.9**

Movement in CFR represented by					
Net financing need for the year (above)		13.6	6.7	-4.6	-12.0
Less Long Term Liabilities Movements		24.5	-5.6	-5.3	-5.5
Less MRP/VRP and other financing movements		-10.6	-10.1	-9.7	-9.4
Movement in CFR		**27.5**	**-9.0**	**-19.6**	**-26.9**

2.4 A key aspect of the regulatory and professional guidance is that elected members are aware of the size and scope of any commercial activity in relation to the authority’s overall financial position. The capital expenditure figures shown in 1.2 and the details above demonstrate the scope of this activity and, by approving these figures; consider the scale proportionate to the County Council’s remaining activity.

3.0 Core funds and expected investment balances

3.1 The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year-end balances for each resource and anticipated day-to-day cash flow balances.

Forecasted Year end Cash Position £m	**2020/21 Actual £m**	**2021/22 Estimate £m**	**2022/23 Estimate £m**	**2023/24 Estimate £m**	**2024/25 Estimate £m**
Reserves and Balances					
General Working Balance	27.9	28.0	28.0	28.0	28.0
Strategic Capacity Reserve	68.5	73.4	51.6	33.2	33.2
Schools Reserve	14.4	-4.2	-4.2	-4.2	-4.2
Other Earmarked Reserves	160.5	134.6	131.2	128.8	128.3
Total Reserves and Balances	**271.3**	**231.8**	**206.6**	**185.8**	**185.3**
Provisions	16.1	16.0	16.0	16.0	16.0
Cashflow (Inc Debtors, Creditors)	48.3	49.7	54.7	54.7	54.7
Personal Estates	10.5	11.0	11.5	12.0	12.0
Sub Total	**74.9**	**76.7**	**82.2**	**82.7**	**82.7**
- Commercial Property	-11.9	-11.9	-11.9	-11.9	-11.9
- Loans to Limited Companies	-8.3	-8.5	-14.8	-9.4	3.5
- Remaining Capital Borrowing Requirement	-32.3	-50.6	-54.0	-44.1	-35.6
Total Internal Capital Financing	**-52.5**	**-71.0**	**-80.7**	**-65.4**	**-44.0**
Total Cash Available to Invest	**293.7**	**237.5**	**208.1**	**203.1**	**224.0**

*Working capital balances shown are estimated year-end; these may be higher mid-year

4.0 Minimum Revenue Provision (MRP) policy statement

4.1 The County Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the Minimum Revenue Provision - MRP), although it is also allowed to undertake additional voluntary payments if required (Voluntary Revenue Provision - VRP).

4.2 DLUHC regulations have been issued which require the County Council to approve an MRP Statement in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The County Council is recommended to approve the following MRP Statement.

a) for all capital expenditure incurred before 1 April 2008, MRP will be based on 4% of the Capital Financing Requirement (CFR) at that date;

b) for capital expenditure incurred after 1 April 2008 which is supported by Government Borrowing approvals, MRP to be based on 4% of such sums as reflected in subsequent CFR updates;

c) for locally agreed Prudential Borrowing on capital expenditure incurred after 1 April 2008, MRP will be calculated using the asset life method based on equal annual instalments over the estimated useful life of the asset for which the borrowing is undertaken:

d) In the case of long term debtors from loans, the amounts paid out are classed as capital expenditure for capital financing purposes. The expenditure is therefore included in the calculation of the County Council’s Capital Financing Requirement. When the County Council receives the repayment of an amount loaned, the income will be classified as a capital receipt. Where the capital receipts will be applied to reduce the Capital Financing Requirement, there will be no revenue provision made for the repayment of the debt liability (i.e. unless the eventual receipt is expected to fall short of the amount expended).

Where expenditure is incurred to acquire and/or develop properties for resale, the Capital Financing Requirement will increase by the amount expended. Where the County Council will subsequently recoup the amount expended via the sale of an asset, the income will be classified as a capital receipt. Where the capital receipts will be applied to reduce the Capital Financing Requirement, there will be no revenue provision made for the repayment of the debt liability (i.e. unless the fair value of the properties falls below the amount expended).

Where expenditure is incurred to acquire properties meeting the accounting definition of investment properties, the Capital Financing Requirement will increase by the amount expended. Where the County Council will subsequently recoup the amount expended (e.g. via the sale of an asset), the income will be classified as a capital receipt. Where the capital receipts will be applied to reduce the Capital Financing Requirement, there will be no revenue provision made for the repayment of the debt liability (i.e. unless the fair value of the properties falls below the amount expended).

This approach also allows the County Council 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.

e) for "on balance sheet" PFI schemes, MRP will be equivalent to the "capital repayment element" of the annual service charge payable to the PFI Operator and for finance leases, MRP will be equivalent to the annual rental payable under the lease agreement.

4.3 Therefore the County Council's total MRP provision will be the sum of (a) + (b) + (c) + (d) (as defined above) which is considered to satisfy the prudent provision requirement. Based on this policy, total MRP in 2022/23 will be about £10.1m (including PFI and finance leases).

1.0 BORROWING STRATEGY

1.1 The capital expenditure plans set out in **Appendix A** provide details of the service activity of the County Council. The treasury management function ensures that the County Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the County Council's capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

2.0 Current portfolio position

2.1 The overall treasury management portfolio as at 31 March 2021 and for the position as at 31 December 2021 are shown below for both borrowing and investments.

TREASURY PORTFOLIO				
	Actual - 31/03/21		**Current - 31/12/21**	
	£m	**%**	**£m**	**%**
Treasury Investments				
Banks	282.4	59	273.2	80
Building Societies	0.0	0	0.0	0
Local Authorities	191.0	40	62.0	18
Money Market Funds	0.0	0	0.0	0
Certificates of Deposit	0.0	0	0.0	0
Total managed in house	**473.4**	**99**	**335.2**	**98**
Property Funds	5.9	1	5.9	2
Total Managed Externally	**5.9**	**1**	**5.9**	**100**
Total Treasury Pool Investments	**479.3**	**100**	**341.1**	**100**
Less Other Bodies Investments	197.3		115.0	
Total NYCC Investments	**282.0**		**226.1**	
Treasury External Borrowing				
PWLB	216.0	92	207.6	91
LOBO's	20.0	8	20.0	9
Total NYCC External Borrowing	**236.0**		**227.6**	
Net Treasury Investments / (Borrowing)	**46.0**		**(1.5)**	

2.2 The County Council's current forward projections for borrowing are summarised below. The table shows the actual external debt, against the underlying capital borrowing need, (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

£m	**2020/21 Actual**	**2021/22 Estimate**	**2022/23 Estimate**	**2023/24 Estimate**	**2024/25 Estimate**
External Debt					
Debt at 1 April	263.1	236.0	221.8	208.5	208.5
Less Expected change in Debt	-27.1	-14.2	-13.3	0.0	0.0
Debt at 31 March	**236.0**	**221.8**	**208.5**	**208.5**	**208.5**
Other long-term liabilities (OLTL)	151.6	176.2	170.6	165.4	159.9
Total Long Term Liability	**387.6**	**398.0**	**379.1**	**373.9**	**368.4**
Less Capital Financing Requirement	**440.3**	**467.8**	**458.8**	**439.2**	**412.3**
Under / (over) borrowing	**52.7**	**69.8**	**79.7**	**65.3**	**43.9**

2.3 Within the range of prudential indicators there are a number of key indicators to ensure that the County Council operates its activities within well-defined limits. One of these is that the County Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2022/23 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes.

2.4 The Corporate Director – Strategic Resources reports that the County Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

3.0 Treasury Indicators: limits to borrowing activity

3.1 **The operational boundary.** This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

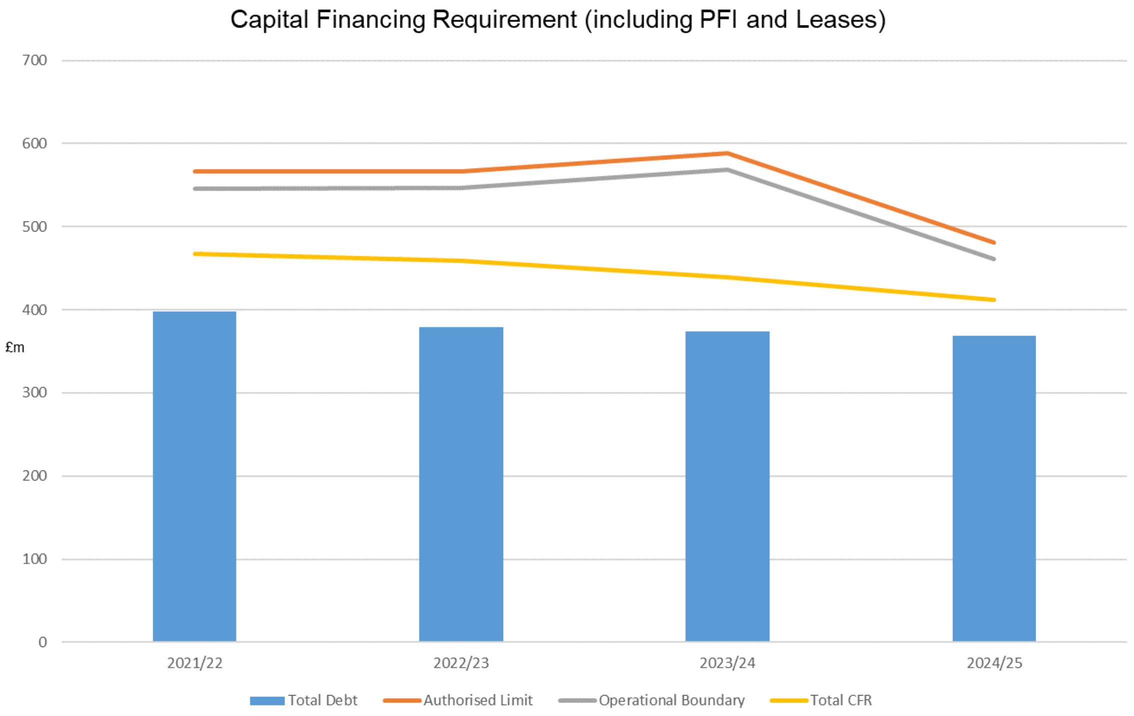
Operational boundary £m	**2021/22 Estimate**	**2022/23 Estimate**	**2023/24 Estimate**	**2024/25 Estimate**
Debt	370.0	375.7	403.4	300.7
Other long term liabilities	176.2	170.6	165.4	159.9
Commercial activities/ non-financial investments	0.0	0.0	0.0	0.0
Total	546.2	546.3	568.8	460.6

3.2 **The authorised limit for external debt.** This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the [full Council]. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

3.3 This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

3.4 The County Council is asked to approve the following authorised limit:

Authorised limit £m	**2021/22 Estimate**	**2022/23 Estimate**	**2023/24 Estimate**	**2024/25 Estimate**
Debt	390.0	395.7	423.4	320.7
Other long term liabilities	176.2	170.6	165.4	159.9
Commercial activities/ non-financial investments	0.0	0.0	0.0	0.0
Total	566.2	566.3	588.8	480.6



4.0 Prospects for interest rates

4.1 The County Council has appointed Link Group as its treasury advisor and part of their service is to assist the County Council to formulate a view on interest rates. The following table shows their view on future interest rates.

Link Group Interest Rate View 20.12.21

	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
BANK RATE	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25
3 month ave earnings	0.20	0.30	0.50	0.50	0.60	0.70	0.80	0.90	0.90	1.00	1.00	1.00	1.00	1.00
6 month ave earnings	0.40	0.50	0.60	0.60	0.70	0.80	0.90	1.00	1.00	1.10	1.10	1.10	1.10	1.10
12 month ave earnings	0.70	0.70	0.70	0.70	0.80	0.90	1.00	1.10	1.10	1.20	1.20	1.20	1.20	1.20
5 yr PWLB	1.40	1.50	1.50	1.60	1.60	1.70	1.80	1.80	1.80	1.90	1.90	1.90	2.00	2.00
10 yr PWLB	1.60	1.70	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10	2.20	2.30
25 yr PWLB	1.80	1.90	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.50	2.50
50 yr PWLB	1.50	1.70	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.20	2.20	2.30	2.30

4.2 Over the last two years, the coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged at its subsequent meetings until raising it to 0.25% at its meeting on 16th December 2021.

4.3 As shown in the forecast table above, the forecast for Bank Rate now includes five increases, one in December 2021 to 0.25%, then quarter 2 of 2022 to 0.50%, quarter 1 of 2023 to 0.75%, quarter 1 of 2024 to 1.00% and, finally, one in quarter 1 of 2025 to 1.25%.

4.4 It is not expected that Bank Rate will go up fast after the initial rate rise as the supply potential of the economy is not likely to have taken a major hit during the pandemic: it should, therefore, be able to cope well with meeting demand after supply shortages subside over the next year, without causing inflation to remain elevated in the medium-term, or to inhibit inflation from falling back towards the MPC's 2% target after the spike up to around 5%. The forecast includes five increases in Bank Rate over the three-year forecast period to March 2025, ending at 1.25%. However, these forecasts may need to be revised due to uncertainties around economic recovery, rising utility prices, and the risk from new Covid variants.

4.5 It should also be borne in mind that Bank Rate being cut to 0.10% was an emergency measure to deal with the Covid crisis hitting the UK in March 2020. At any time, the MPC could remove that final emergency cut from 0.25% to 0.10% on no other grounds than it being no longer being warranted and as a step forward in the return to normalisation. In addition, any Bank Rate under 1% is both highly unusual and highly supportive of economic growth.

4.6 **Bond yields / PWLB rates**.
Since the start of 2021, there has been a lot of volatility in gilt yields, and hence PWLB rates, and this is likely to continue.

4.7 As the interest forecast table for PWLB certainty rates above shows, there is likely to be a steady rise over the forecast period, with some degree of uplift due to rising treasury yields in the US.

5.0 Investment and borrowing rates

5.1 **Investment returns** are expected to improve in 2022/23. However, while markets are pricing in a series of Bank Rate hikes, actual economic circumstances may see the MPC fall short of these elevated expectations.

5.2 **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 and still remain at historically low levels.

5.3 On 25 November 2020, 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.

6.0 Borrowing strategy

6.1 The County Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the County Council’s reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

6.2 Against this background and the risks within the economic forecast, caution will be adopted with the 2022/23 treasury operations. The Corporate Director – Strategic Resources will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- *if it was felt that there was a significant risk of a sharp FALL in borrowing rates,* (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then borrowing will be postponed.

- *if it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast,* perhaps arising from an acceleration in the rate of increase in central rates in the USA and UK, an increase in world economic activity, or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

6.3 The internal borrowing position will be carefully reviewed and monitored on an ongoing basis in order to consider any changes to borrowing rates as well as current and future cash flow constraints.

6.4 Further long term external borrowing may be undertaken, in excess of the current forecasts, in the event that it is not possible or desirable to sustain the anticipated internal borrowing position.

6.5 The external borrowing requirement will be kept under review, and long term external loans will be secured within the parameters established by the authorised limit and operational boundary for external debt).

6.6 Opportunities to generate savings by refinancing or prematurely repaying existing long term debt will also be kept under review. Potential savings will be considered in the light of the current treasury position and the costs associated with such actions.

6.7 Any decisions will be reported to the appropriate decision making body at the next available opportunity.

7.0 Policy on borrowing in advance of need

7.1 The County Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

Borrowing in advance will be made within the constraints that:

- there is a clear business case for doing so for the current Capital Plan;
- it will be used finance future debt maturity repayments;
- it will offer value for money can be demonstrated; and
- the County Council can ensure the security of such funds which are subsequently invested.

7.2 Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

8.0 Debt rescheduling

8.1 Rescheduling of current borrowing in our debt portfolio is unlikely to occur as there is still a very large difference between premature redemption rates and new borrowing rates, even though the general margin of PWLB rates over gilt yields was reduced by 100 bps in November 2020.

8.2 If rescheduling was done, it will be reported to the Executive and Audit Committee as part of the quarterly Treasury Management Reports.

APPENDIX C

ANNUAL INVESTMENT STRATEGY

1.0 Investment policy – management of risk

1.1 The DLUHC and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with financial investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy, (**APPENDIX D**).

1.2 The County Council's investment policy has regard to the following: -

- DLUHC's Guidance on Local Government Investments ("the Guidance");
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the Code"); and
- CIPFA Treasury Management Guidance Notes 2018.

The County Council's investment priorities will be security first, portfolio liquidity second and then yield, (return).

1.3 The above guidance from the DLUHC and CIPFA place a high priority on the management of risk. The County Council has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

a) Minimum acceptable credit criteria are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.

b) Other information: ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration, the County Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.

c) Other information sources used will include the financial press, share price and other such information pertaining to the financial sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

d) The County Council has defined the list of types of investment instruments that the treasury management team are authorised to use.

- **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year.

- **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use. Once an investment is classed as non-specified, it remains non-specified all the way through to maturity i.e. an 18 month deposit would still be non-specified even if it has only 11 months left until maturity.

e) **Non-specified investments limit.** The County Council has determined that it will limit the maximum total exposure to non-specified investments as being 20% of the total investment portfolio, (£40m).

f) **Lending limits**, (amounts and maturity), for each counterparty will be set.

g) The County Council will set a limit for the amount of its investments which are invested for **longer than 365 days**,

h) Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**,

i) The County Council has engaged **external consultants**, to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of the County Council in the context of the expected level of cash balances and need for liquidity throughout the year.

j) All investments will be denominated in **sterling**.

k) As a result of the change in accounting standards for 2022/23 under IFRS 9, this authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the DLUHC, formally the Ministry of Housing, Communities and Local Government, concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31 March 2023.

1.4 However, the County Council will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance. Regular monitoring of investment performance will be carried out during the year.

2.0 Changes in risk management policy from last year

2.1 The above criteria are unchanged from last year.

3.0 Creditworthiness policy

3.1 The County Council applies the creditworthiness service provided by the Link Group. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard & Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- "watches" and "outlooks" from credit rating agencies;
- CDS spreads that may give early warning of likely changes in credit ratings; and
- sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, and any assigned Watches and Outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads. The end product of this is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the County Council to determine the suggested duration for investments.

3.2 The Link Group creditworthiness service uses a wider array of information other than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.

3.3 Typically, the minimum credit ratings criteria the County Council use will be a short term rating (Fitch or equivalents) of F1 and a long term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances, consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

3.4 All credit ratings will be monitored daily. The County Council is alerted to changes to ratings of all three agencies through its use of the Link Group creditworthiness service.

3.5 If a downgrade results in the counterparty / investment scheme no longer meeting the County Council's minimum criteria, its further use as a new investment will be withdrawn immediately.

3.6 In addition to the use of credit ratings the County Council will be advised of information in movements in Credit Default Swap (CDS) spreads against the iTraxx European Financials benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link Group. Extreme market movements may result in downgrade of an institution or removal from the County Council's lending list.

3.7 Sole reliance will not be placed on the use of this external service. In addition, the County Council will also use market data and market information, as well as information on any external support for banks to help support its decision making process.

3.8 Significant levels of downgrades to Short and Long-Term credit ratings have not materialised since the crisis in March 2020. In the main, where they did change, any alterations were limited to Outlooks. However, as economies are beginning to reopen, there have been some instances of previous lowering of Outlooks being reversed.

3.9 Although bank CDS prices, (these are market indicators of credit risk), spiked upwards at the end of March / early April 2020 due to the heightened market uncertainty and ensuing liquidity crisis that affected financial markets, they have returned to more average levels since then. However, sentiment can easily shift, so it will remain important to undertake continual monitoring of all aspects of risk and return in the current circumstances.

4.0 Country limits

4.1 Due care will be taken to consider the exposure of the County Council's total investment portfolio to non-specified investments, countries, groups and sectors.

4.2 **Non-specified investment limit.** The County Council has determined that it will limit the maximum total exposure to non-specified investments as being 20% of the total investment portfolio.

4.3 **Country limit.** The County Council has determined that it will only use approved counterparties from the UK and from non-UK countries with a minimum sovereign credit rating of *AA-* from Fitch. The list of countries that qualify using these credit criteria as at the date of this report is shown in **Schedule 5**. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy

5.0 Investment strategy

5.1 **In-house funds.** Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. While most cash balances are required in order to manage daily cash flow requirements, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

- if it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable; or

- conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

5.2 **Investment returns expectations.** The current interest rate forecast includes a forecast for a first increase in Bank Rate in May 2022.

5.3 The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:

Year	Budget %
2022/23	0.30
2023/24	0.65
2024/25	0.90

5.4 The overall balance of risks to economic growth in the UK is now to the downside, including residual risks from Covid and its variants - both domestically and their potential effects worldwide.

6.0 Investment performance / risk benchmarking

6.1 The County Council will use an investment benchmark to assess the investment performance of its investment portfolio of Bank of England Base Rate.

7.0 End of year investment report

7.1 At the end of the financial year, the County Council will report on its investment activity as part of its Annual Treasury Report.

APPENDIX D

CAPITAL STRATEGY

1.0 BACKGROUND

1.1 As highlighted with the Treasury Management Strategy, 2022/23 is the final year for establishing a Capital Strategy for the County Council given that the new unitary council for North Yorkshire will come into effect from 1 April 2023. The production of an emerging "shadow" strategy for the new unitary council, an aggregation of the future projections of all 8 councils will become the start position for the new unitary North Yorkshire Council.

1.2 The purpose of the Capital Strategy is to demonstrate that the County Council takes capital expenditure and investment decisions in line with corporate and 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.

1.3 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 County Council'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 County Council's capital financing requirement, how this impacted by capital expenditure decisions and how it will be funded and repaid. It therefore sets out the County Council'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 County Council's current and proposed alternative investment activities that count as capital expenditure, including processes, due diligence and defining the County Council's risk appetite in respect of these.

d) **Chief Financial Officer's (Section 151) statement (Section 5)**

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

2.0 CAPITAL EXPENDITURE

Capitalisation Policy

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

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

- are of continuing benefit to the County Council for a period extending beyond one financial year.

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

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

- where the County Council 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 Council to capitalise expenditure that would not otherwise have expenditure implications according to accounting rules.

2.4 The County Council operates de-minimis limits for capital expenditure. This means that items below these limits are charged to revenue rather than capital. The limits are currently as follows:

• General Limit:	£20,000
• Schools Limit:	£ 2,000

Governance

2.5 Capital expenditure is a necessary element in the development of the County Council's services since it generates investment in new and improved assets. Capital expenditure is managed through the Capital Plan – a three year capital budget set annually as part of the budget setting process and reviewed quarterly as part of performance monitoring arrangements.

2.6 The County Council’s Financial Procedure Rules and the Asset Management Planning Framework provide a framework for the preparation and appraisal of schemes proposed for inclusion in the Capital Plan, appropriate authorisations for individual schemes to proceed and facilitate the overall management of the Capital Plan within defined resource parameters.

2.7 The Corporate Director –Strategic Resources shall determine the format of the Capital Plan and the timing of reports relating to it. The approved Capital Plan will comprise a number of individual schemes each of which will be quantified in overall project terms or on an annualised basis, as appropriate. Each Director shall prepare a draft Capital Plan for their service, in consultation with the Corporate Director – Strategic Resources, for submission to the Executive. The Capital Plan should identify planned expenditure, and funding, at proposed individual scheme or programme level.

2.8 The Corporate Director – Strategic Resources is responsible for preparing an overall Capital Plan for consideration by the Executive, and approval by the County Council, the funding of which shall be compatible at all times with the Treasury Management Policy Statement of the County Council. Individual schemes shall only be included in the Capital Plan following a project appraisal process undertaken in accordance with the guidelines defined in the Asset Management Planning Framework and in accordance with the Property Procedure Rules.

Capital Expenditure and Funding Plans

2.9 The County Council's capital expenditure plans as per the Capital Plan are set out in **Appendix B.**

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

a) **capital grants and contributions** - amounts awarded to the County Council in return for past or future compliance with certain stipulations;

b) **capital receipts** – amounts generated from the sale of assets and from the repayment of capital loans, grants or other financial assistance;

c) **revenue contributions** – amounts set aside from the revenue budget in the Reserve for Future Capital Funding; and

d) **borrowing** - amounts that the Council does not need to fund immediately from cash resources, but instead charges to the revenue budget over a number of years into the future.

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

3.0 CAPITAL FINANCING REQUIREMENT AND BORROWING

Context

3.1 The County Council 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 County Council’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 2020/21, and the estimates for 2021/22 through to 2024/25, are provided in **Appendix B**

Capital Financing Requirement (CFR)

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.**

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).

3.5 The actual CFR for 2020/21 and forward projections for the current and forthcoming years are as follows:

	2020/21 Actual £m	**2021/22 Probable £m**	**2022/23 Estimate £m**	**2023/24 Estimate £m**	**2024/25 Estimate £m**
Capital Borrowing	303.7	276.6	282.0	279.4	265.5
Loans to Limited Companies	-15.0	15.0	6.2	-5.6	-13.1
Investment Properties	0.0	0.0	0.0	0.0	0.0
Other Long Term Liabilities	151.6	176.2	170.6	165.4	159.9
Total Capital Financing Requirement	**440.3**	**467.8**	**458.8**	**439.2**	**412.3**

3.6 The forecast reduction in the CFR is a result of the annual provision for the repayment of debt each year being in excess of the amount of capital expenditure that it is intended to finance from borrowing based on the current capital programme up to 2024/25. The CFR may potentially increase dependent on the level of capital investment undertaken.

3.7 The CFR may potentially increase dependent on the level of capital investment undertaken. The investments in commercial property are classed as capital expenditure. As commercial investments are funded from core cash balances, the investments are effectively funded from internal borrowing for capital accounting purposes. As a result, expenditure on commercial property investments are included in the calculation of the Capital Financing Requirement (CFR). When the County Council ultimately disinvests and sells the properties, the income will be classed as a capital receipt and applied to reduce the CFR. The County Council will not borrow to fund commercial investment through loans from PWLB or money markets.

External Borrowing Limits

3.8 The County Council 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 Council, 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 Council'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 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. The Alternative Investments Strategy is still evolving though and, in the event that major initiatives are proposed, in excess of those already in the Capital Programme, it may be necessary to review the current borrowing limits.

3.11 The agreed **Operational Boundary** and **Authorised Limits** for external debt are as follows:

	2021/22 Probable £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m
Debt outstanding at start of year	**263.1**	**335.8**	**342.4**	**383.4**
+ **External borrowing requirements**				
Capital borrowing requirement	13.6	6.7	-4.7	-12.0
Replacement borrowing	14.2	13.3	0.0	0.0
MRP charged to Revenue	-10.6	-10.1	-9.7	-9.4
Borrowing b/fwd from 2019/20	0.0	0.0	0.0	-0.0
Internally funded variations	69.7	10.0	55.4	-81.3
Sub-total	**86.9**	**19.9**	**41.0**	**-102.7**
- External debt repayment	**-14.2**	**-13.3**	**0.0**	**0.0**
Forecast Debt Outstanding	**335.8**	**342.4**	**383.4**	**280.7**
+ Other 'IFRS' long term liabilities				
PFI / Leases	176.2	170.6	165.4	159.9
Total Debt Outstanding	**512.0**	**513.0**	**548.8**	**440.6**
+ Provision for				
Debt rescheduling	15.0	15.0	15.0	15.0
Potential capital receipts slippage	5.0	5.0	5.0	5.0
New borrowing taking place before principal repayments made	14.2	13.3	0.0	0.0
Operational Boundary for year	**546.2**	**546.3**	**568.8**	**460.6**
+ Provision for cash movements	20.0	20.0	20.0	20.0
Authorised Limit for year	**566.2**	**566.3**	**588.8**	**480.6**

Borrowing Strategy

3.12 The County Council's Borrowing Strategy is set out in **Appendix B**.

3.13 The County Council is currently maintaining an under borrowed position. This means the Capital Financing Requirement (CFR) has not been fully funded from long-term external borrowing as cash supporting the authority's reserves and balances has been used as a short term measure.

The use of internal borrowing has been an effective strategy in recent years as:

- it has enabled the County Council to avoid significant external borrowing costs; and

- it has mitigated significantly the risks associated with investing cash in what has often been a volatile and challenging market.

3.14 The internal borrowing position will be carefully reviewed and monitored on an ongoing basis in order to consider any changes to borrowing rates as well as current and future cash flow constraints.

3.15 Further long term external borrowing may be undertaken, in excess of the current forecasts, in the event that it is not possible or desirable to sustain the anticipated internal borrowing position.

3.16 The external borrowing requirement will be kept under review, and long term external loans will be secured within the parameters established by the authorised limit and operational boundary for external debt).

3.17 Opportunities to generate savings by refinancing or prematurely repaying existing long term debt will also be kept under review. Potential savings will be considered in the light of the current treasury position and the costs associated with such actions.

Minimum Revenue Provision

3.18 The County Council 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.

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

3.20 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 County Council ensures that debt is repaid over a period that is commensurate with the period over which the capital expenditure provides benefit. The revenue budget provision for MRP charges in 2022/23 has been compiled on a basis consistent with this policy.

3.21 The DLUHC is currently conducting a consultation on amending MRP rules. Proposed changes resulting from the consultation on MRP rules will be reflected in the 2023/24 Capital Strategy.

4.0 ALTERNATIVE INVESTMENTS

Introduction

4.1 The prolonged low interest rate environment has resulted in reduced returns on treasury management investments. Moreover, the introduction of the general power of competence has given local 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 The CIPFA Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes (the Treasury Management Code) requires 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 Levelling Up, Housing and Communities Statutory Guidance on Local Authority Investments also reinforces the need for Commercial Activities to be included in the Capital Strategy.

4.4 In addition, Her Majesty's Treasury introduced revised lending terms for borrowing from the PWLB on 25 November 2020. Under the revised lending terms, the government has now ended access to the PWLB for Local Authorities that wish to buy commercial assets primarily for yield, as assessed by the statutory Section 151 officer. Local Authorities remain free to buy commercial assets primarily for yield, but are not be able to take out new loans from the PWLB in year where they have any plans to buy commercial assets at any point over the following 3 year period (any loans taken out under the old system are not be affected by this change). As a result, of the revised lending terms the government has now cut PWLB lending rates.

4.5 More recently, CIPFA published updated Treasury Management and Prudential Codes on 20 December 2021 – these updated Codes will need to be reflected in local authority Treasury Management and Capital Strategies from 2023/24. The new CIPFA Codes further tighten regulations around financing capital expenditure on investments in commercial projects for yield.

4.6 The 2022/23 Capital Plan does not include any plans to purchase commercial assets primarily for yield.

4.7 The 2022/23 Capital Plan does include £16.0m relating to expenditure on Alternative Investments, but this specifically relates to Loans to the County Council's Limited Companies. Loans to subsidiary companies provide working capital/financial assistance and are not commercial arrangements primarily for yield.

4.8 The County Council continues to review potential commercial investments, but will now consider any potential investment opportunities alongside the implications for PWLB borrowing going forward.

4.9 The County Council does not borrow to fund commercial investment through loans from the PWLB or money markets.

4.10 All alternative investment activities are subject to approval in accordance with the County Council's governance framework for decision making. Any subsequent changes in governance, policy objectives and approach following elections to the new council in May 2022 will be factored into the new council's first capital strategy, effective from April 2023.

Alternative Investment Objectives

4.11 The primary objectives of alternative investment activities are:

- Security – to protect the capital sums invested from loss; and
- Liquidity – ensuring the funds invested are available for expenditure when needed.

4.12 The generation of yield is distinct from these prudential objectives. However, once proper levels of security and liquidity are determined, it is then reasonable to consider what yield can be obtained consistent with these priorities.

4.13 Non-core activities and investments are primarily undertaken by the County Council in order to generate income to support the delivery of a balanced budget. Such investments are only entered following a full assessment of the risks and having secured expert external advice (i.e. where it is relevant to do so).

4.14 An overall maximum exposure of £60m for alternative investments was approved by Executive on 15 January 2019.

Commercial Investment Board

4.15 Given the technical nature of potential alternative investments and strong linkages to the Council's Treasury Management function, appropriate governance and decision making arrangements are needed to ensure robust due diligence in order to make recommendations for implementation. As a result, a Commercial Investment Board has been established. All investments will be subject to consideration and where necessary recommendations of the Commercial Investment Board.

4.16 The Board is not be a constituted body and therefore does not have formal decision making powers. However, it is the chief means of identifying, reviewing and recommending schemes for investment decisions. Formal decisions on investments will be taken within the existing delegations namely through delegated authority to the Corporate Director - Strategic Resources and further decisions as made by the Executive.

4.17 The Board has delegated authority to approve individual investments up to a limit of £2.5m per investment and up to a total of £10m in any one financial year (approved by Executive 15 January 2019). Investments in excess of this will be submitted to the Executive for approval.

4.18 The responsibilities of the Board also include:

- to consider appropriate due diligence proportionate to the investment / risk / reward proposed;
- terminate investments should concerns be raised - to consider and recommend cases for early termination of alternative investments;
- to monitor returns against approved performance targets;
- to report performance of alternative investments to the Executive on a quarterly basis; and
- to make recommendations to Executive on any proposed changes to the framework.

Membership of the Board is as follows:

- Lead Member for Finance (Chair)
- Lead Member for Growth
- Corporate Director Strategic Resources
- Corporate Director Business and Environmental Services
- Assistant Director Strategic Resources
- Assistant Director BES - Growth, Planning and Trading Standards

Investment Properties

4.19 Options are continually reviewed the acquisition of land and buildings for investment purposes, rather than for the supply of goods or services or for administrative purposes. Such assets will be classified as Investment Properties.

4.20 Investment properties are measured at their fair value annually (which will ensure the valuation reflects the market conditions at the end of each reporting period). The fair value measurement will enable the County Council to assess whether the underlying assets provide security for capital investment. Where the fair value of the underlying assets is no longer sufficient to provide security against loss, mitigating actions will be considered, to ensure that appropriate action is taken to protect the capital sum invested.

Loans to Third Parties

4.21 Loans to third parties will be considered, as part of a wider strategy for local economic growth, even though they may not all be seen as prudent if adopting a narrow definition of prioritising security and liquidity.

4.22 Such loans will be considered when all of the following criteria are satisfied:

- the loan is given towards expenditure which would, if incurred by the County Council, be capital expenditure;
- the purpose for which the loan is given is consistent with the County Council's corporate / strategic objectives and priorities;
- due diligence is carried out that confirms the County Council's legal powers to make the loan, and that assesses the risk of loss over the loan term; and
- a formal loan agreement is put in place which stipulates the loan period (*which will not exceed 25 years*), repayment terms and loan rate (which will be set at a level that seeks to mitigate any perceived risks of a loss being charged to the General

Fund, and takes appropriate account of state aid rules) and any other terms that will protect the County Council from loss;

The County Council does not currently have in place any loans with third parties.

Loans to Limited Companies

4.23 The County Council has made a number of loans in recent years for policy reasons and will continue to monitor and review this position.

a) the County Council's general investment powers under this Annual Treasury Management and Investment Strategy come from the Local Government Act 2003 (Section 12). 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;

b) in addition to investment, the County Council has the power to provide loans and financial assistance to Limited Companies under the Localisation Act 2011 (and also formally under the general power of wellbeing in the Local Government Act 2000) which introduced a general power of competence for authorities;

c) any such loans to limited companies will not be classed as investments made by the County Council. Instead they will be classed as capital expenditure and will be approved, financed and accounted for accordingly; and

d) at present the County Council has made several loans to companies in which it has an equity investment. In all cases loan limits are set, and reviewed periodically, by the Executive.

The County Council's loans to limited companies are set out in **paragraph 4.25.**

Other Alternative Investments

4.24 Consideration of individual investment opportunities is subject to detailed business cases and subject to review and approval by the Alternative Investment Board and Executive. The Capital Strategy will be updated should further investment opportunities be developed during 2022/23 and/or in the event that the statutory Guidance on Local Authority Investments, when issued, requires further content to be included.

Current Alternative Investment Position

4.25 In order to manage risk appropriately, achieve targets for investment returns, deliver a diverse portfolio and maintain a level of liquidity, the Commercial Investment Board has established an investment framework. The investment framework provides a range of investment options and investment limits for each option.

The current investment framework and current alternative position is as follows:

Type of Investment	Risk	Maximum Exposure £m	Maximum Term Years	Target Rate (above BBR) %	Invested as at 31/12/21 £m	Rate of Return %
Alternative treasury instruments						
Money Market Funds	Low	20.0	1 – 5	>0.10	0.0	0.00
Enhanced Cash Funds		20.0			0.0	0.00
Certificates of Deposit		20.0			0.0	0.00
Property Funds		20.0			5.9	3.38
Total Alternative Treasury Instruments					**5.9**	**3.38**
Other Alternative Investments						
Loans to Council Companies	Low - Medium	25.0	10	4.00	26.9	5.94
Spend to Save	Low	5.0	7	4.00	0.0	0.00
Loans to Housing Associations	Medium	10.0	20	3.00	0.0	0.00
Solar Farms (or similar)	Medium	5.0	20	7.00	0.0	0.00
Commercial Investments	High	20.0	10	5.00	11.9	2.28
Total Other Alternative Investments *					**38.7**	**4.82**

* Total Alternative Investments capped at £60m

Loans to Council Companies are currently in excess of the overall maximum exposure limit. All loans are within individual approval limits. As a result, the overall exposure limit in relation to Alternative Investments will be reviewed by the Commercial Investment Board.

4.26 The County Council has the following loans to subsidiaries in place as at 31 December 2021.

Subsidiary	Total Loan Agreed £m	Loan Advanced £m	Loan Terms Years	Interest Rate %	Loan Balance £m
NYnet	10.00	Overdraft	n/a	3.0+Base	0.0
Yorwaste – Loan 1	3.70	2017/18	10	4.0+Base	3.7
Yorwaste – Loan 2	3.85	2017/18	10	4.0+Base	2.3
Brierley Homes	14.90	2017/18	2	6.0+Base	12.8
First North Law	0.25	2017/18	10	4.0+Base	0.1
NY Highways	11.00	2020/21	10	6.5+base	8.0
Total					**26.9**

4.27 The County Council has the following Commercial Property Investments in place as at 31 December 2021.

Property	**Amount £m**	**Net Yield %**
Bank Unit in Stafford Town Centre	0.9	6.05
Harrogate Royal Baths	9.5	1.45
Co-op in Somercotes	1.5	5.32
Total	**11.9**	**2.28**

5.0 CHIEF FINANCIAL OFFICER'S (SECTION 151) STATEMENT

Background

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

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

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

5.4 The Prudential Code requires the Chief Financial Officer to report explicitly on the affordability and risk associated with the Capital Strategy. The following are specific responsibilities of the Section 151 Officer:

- recommending clauses, treasury management policy/practices for approval, reviewing regularly, and monitoring compliance;
- submitting quarterly treasury management reports;
- submitting quarterly capital 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 are well established and are highly effective in ensuring delivery of the County Council’s capital investment plans. In addition, the Capital Strategy and Prudential Indicators also demonstrates that the capital expenditure, investment and financing plans of the County Council are robust, affordable and sustainable.”

SCHEDULES

1. Treasury Management Policy Statement
2. Prudential Indicators Update for 2022/23 to 2024/25
3. Economic background
4. Specified and Non Specified Investments

5 Approved Lending List

6. Approved countries for investments

SCHEDULE 1

NORTH YORKSHIRE COUNTY COUNCIL

TREASURY MANAGEMENT POLICY STATEMENT

1.0 INTRODUCTION AND CONTEXT

1.1 2022/23 is the final year for establishing a Treasury Management Policy Statement for the County Council given that the new unitary council for North Yorkshire will come into effect from 1 April 2023. The production of an emerging “shadow” policy for the new unitary council, an aggregation of the future projections of all 8 councils, will become the start position for the new unitary North Yorkshire Council.

1.2 The County Council has adopted the **CIPFA Code of Practice on Treasury Management in the Public Services** as updated in 2017. This Code sets out a framework of operating procedures to reduce treasury risk and improve understanding and accountability regarding the Treasury position of the County Council.

1.3 The CIPFA Code of Practice on Treasury Management requires the County Council to adopt the following four clauses of intent:

a) the County Council will create and 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 County Council to its treasury management activities;

   ii. a framework of suitable **Treasury Management Practices** (TMPs) setting out the manner in which the County Council 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 County Council delegates responsibility for the implementation and regular monitoring of its Treasury Management policies and practices to the Executive and for the execution and administration of Treasury Management decisions to the Corporate Director – Strategic Resources who will act in accordance with the Council’s TMPS, TMPs, as well as CIPFA’s Standard of Professional Practice on Treasury Management;

c) the County Council nominates the Audit Committee to be responsible for ensuring effective scrutiny of the Treasury Management Strategies and Policies; and

d) the County Council nominates the Audit Committee to be responsible for ensuring effective scrutiny of the Treasury Management Strategies and Policies.

1.4 The **CIPFA Prudential Code for Capital Finance in Local Authorities** (updated in 2017) 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**; and

b) approval, on an annual basis, of an **Annual Treasury Management Strategy**, an **Annual Investment Strategy**, an annual **Minimum Revenue Provision (MRP)** policy statement and a **Capital Strategy** with an associated requirement that each is monitored on a regular basis with a provision to report as necessary both in-year and at the financial year end.

1.5 This current Treasury Management Policy Statement (TMPS) was approved by County Council on 16 February 2022.

2.0 TREASURY MANAGEMENT POLICY STATEMENT (TMPS)

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

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

a) the management of the County Council’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 County Council and any financial instrument entered into to manage these risks; and

c) effective treasury management will provide support towards the achievement of the business and service objectives of the County Council as expressed in the Council Plan. The County Council is committed to the principles of achieving value for many in treasury management, and to employing suitable comprehensive 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 County Council and all officers involved in Treasury Management activities are explicitly required to follow Treasury Management policies and procedures.

3.0 TREASURY MANAGEMENT PRACTICES (TMPs)

3.1 The CIPFA Code of Practice on Treasury Management requires a framework of Treasury Management Practices (TMPs) which:

a) set out the manner in which the County Council will seek to achieve the policies and objectives; and

b) prescribe how the County Council will manage and control those activities;

3.2 The CIPFA Code of Practice recommends 12 TMPs. A list of the 12 TMPs is as follows: -

TMP 1	Risk management
TMP 2	Performance measurement
TMP 3	Decision-making and analysis
TMP 4	Approved instruments, methods and techniques
TMP 5	Organisation, clarity and segregation of responsibilities, and dealing arrangements
TMP 6	Reporting requirements and management information arrangements
TMP 7	Budgeting, accounting and audit arrangements
TMP 8	Cash and cash flow management
TMP 9	Money Laundering
TMP 10	Training and qualifications
TMP 11	Use of external service providers
TMP 12	Corporate governance

4.0 PRUDENTIAL INDICATORS

4.1 The Local Government Act 2003 underpins the Capital Finance system introduced on 1 April 2004 and requires the County Council to "have regard to" the **CIPFA Prudential Code for Capital Finance in Local Authorities**. This Code which was last updated in December 2017, requires the County Council to set a range of Prudential Indicators for the next three years

a) as part of the annual Budget process, and;

b) before the start of the financial year;

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.

The required Prudential Indicators are as follows:-

- Capital Expenditure - Actual and Forecasts
- estimated ratio of capital financing costs to the Net Revenue Budget
- Capital Financing Requirement
- Gross Debt and the Capital Financing Requirement
- authorised Limit for External Debt
- operational Boundary for External Debt
- Actual External Debt
- Maturity Structure of Borrowing
- Total Principal Sums Invested for periods longer than 365 days

4.3 The County Council will approve the Prudential Indicators for a three year period alongside the annual Revenue Budget/Medium Term Financial Strategy at its February meeting each year. The Indicators will be monitored during the year and necessary revisions submitted as necessary via the Quarterly Performance and Budget Monitoring reports.

4.4 In addition to the above formally required Prudential Indicators, the County Council has also set two local ones as follows:

a) to cap Capital Financing costs to 10% of the net annual revenue budget; and

b) a 30% limit on money market borrowing as opposed to borrowing from the Public Works Loan Board.

5.0 ANNUAL TREASURY MANAGEMENT AND INVESTMENT STRATEGY

5.1 A further implication of the Local Government Act 2003 is the requirement for the County Council to set out its Treasury Management Strategy for borrowing and to approve an Annual Investment Strategy (which sets out the County Council's policies for managing its investments and for giving priority to the security and liquidity of those investments).

5.2 The Government's guidance on the Annual Investment Strategy, updated in February 2018, states that authorities can combine the Treasury Management Strategy Statement and Annual Investment Strategy into one report. The County Council has adopted this combined approach.

5.3 Further statutory Government guidance, last updated with effect from February 2018, is in relation to an authority's charge to its Revenue Budget each year for debt repayment. A Minimum Revenue Provision (MRP) policy statement must be prepared each year and submitted to the full Council for approval before the start of the financial year.

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.

6.0 REVIEW OF THIS POLICY STATEMENT

6.1 Under Financial Procedure Rule 14, the Corporate Director – Strategic Resources is required to periodically review this Policy Statement and all associated documentation. A review of this Statement, together with the associated annual strategies, will therefore be undertaken annually as part of the Revenue Budget process, together with a mid year review as part of the Quarterly Treasury Management reporting process and at such other times during the financial year as considered necessary by the Corporate Director – Strategic Resources.

Approved by County Council
16 February 2022

SCHEDULE 2

PRUDENTIAL INDICATORS UPDATE – FOR 2022/23 TO 2024/25

CAPITAL EXPENDITURE & EXTERNAL DEBT INDICATORS

1 Estimated Ratio of capital financing costs to the net Revenue Budget

(a) ***Formally required Indicator***

This reflects capital financing costs (principal plus interest) on external debt plus PFI and finance leasing charges less interest earned on the temporary investment of cash balances.

The estimated ratios of financing costs to the net Revenue Budget for the current and future years, and the actual figure for 2020/21 are as follows:

Year	Executive August 2021		Update January 2022	
	Basis	**%**	**Basis**	**%**
2020/21	Actual	10.4	Actual	10.4
2021/22	Estimate	10.7	Estimate	10.5
2022/23	Estimate	10.6	Estimate	9.8
2023/24	Estimate	9.9	Estimate	9.0
2024/25	Estimate	-	Estimate	8.5

(b) ***Local Indicator***

This local Indicator reflects a policy decision to cap Capital Financing costs at 10% of the net annual Revenue Budget. The Indicator is different to the formally required Indicator at (a) above in that it only reflects the cost components of interest on external debt plus lost interest on internally financed capital expenditure, together with a revenue provision for debt repayment. Unlike the formally required PI it does not reflect interest earned on surplus cash balances or PFI / finance leasing charges.

Year	Executive August 2021		Update January 2022	
	Basis	**%**	**Basis**	**%**
2020/21	Actual	5.7	Actual	5.7
2021/22	Estimate	5.5	Estimate	5.2
2022/23	Estimate	5.1	Estimate	4.8
2023/24	Estimate	4.7	Estimate	4.5
2024/25	Estimate	-	Estimate	4.3

Comment

The estimates of financing costs include current Capital Plan commitments based on the latest 2021/22 Q3 Capital Plan.

The updated estimates for 2021/22 to 2024/25 reflect the net effect of a range of factors, principally

(a) savings being achieved through the ongoing policy of financing capital borrowing requirements internally from cash balances

(b) variations in the level of annual borrowing requirements resulting from a range of factors, but principally capital expenditure slippage between years

(c) variations in borrowing costs (interest plus a revenue provision for debt repayment) reflecting latest interest rate forecasts to 2024/25

(d) variations in interest earned on cash balances resulting from continuing current historically low interest rates but offset by continuing higher levels of cash balances (formal Indicator only).

Prudential Indicator

2 Capital Expenditure - Actual and Forecasts

The actual capital expenditure that was incurred in 2020/21 and the latest estimates of capital expenditure to be incurred for the current and future years are:

Year	Executive August 2021		Update January 2022	
	Basis	£m	Basis	£m
2020/21	Actual	119.6	Actual	119.6
2021/22	Estimate	171.2	Estimate	142.8
2022/23	Estimate	38.3	Estimate	83.2
2023/24	Estimate	6.2	Estimate	34.0
2024/25	Estimate	-	Estimate	26.4

The above figures reflect the updated Capital Plan (Q3 2021/22) together with:-

(i) expenditure on fixed assets funded directly from the Revenue Budget and not included in the Capital Plan.

(ii) an estimated allowance for future expenditure re-phasing between years.

Comment

This Indicator now reflects the Capital Outturn in 2020/21 and the Capital Plan update for Q3 2021/22.

The variations are principally a result of:-

(a) additional provisions and variations to existing provisions which are self-funded from Capital Grants and Contributions, revenue contribution and earmarked capital receipts

(b) Capital expenditure re-phasing between years including slippage from 2020/21 outturn and Q3 2021/22 to later years

(c) various other Capital approvals and refinements reflected in the latest Capital Plan update

Prudential Indicator

3 Capital Financing Requirement (CFR)

Actuals and estimates of the Capital Financing Requirement (CFR) at the defined year ends are as follows:

	Executive August 2021				Update January 2022			
Date	**Basis**	**Borrowing £m**	**Other Long Term Liabilities (PFi etc) £m**	**Total £m**	**Basis £m**	**Borrowing £m**	**Other Long Term Liabilities (PFi etc) £m**	**Total £m**
31 Mar 2021	Actual	288.7	151.6	440.3	Actual	288.7	151.6	440.3
31 Mar 2022	Estimate	293.1	176.2	469.2	Estimate	291.6	176.2	467.8
31 Mar 2023	Estimate	269.9	170.6	440.5	Estimate	288.2	170.6	458.8
31 Mar 2024	Estimate	256.3	165.4	421.6	Estimate	273.8	165.4	439.2
31 Mar 2025	Estimate	-	-	-	Estimate	252.4	159.9	412.3

The CFR measures the underlying need for the County Council to borrow for capital purposes. In accordance with best professional practice, the County Council does not earmark borrowing to specific items or types of expenditure. The County Council has an integrated treasury management approach and has adopted the CIPFA Code of Practice for Treasury Management. The County Council has, at any point in time, a number of cashflows, both positive and negative, and manages its treasury position in terms of its overall borrowings and investments in accordance with its approved Annual Treasury Management Strategy. In day to day cash management, no distinction is made between revenue and capital cash. External borrowing arises as a consequence of all the financial transactions of the County Council as a whole and not simply those arising from capital spending. In contrast, the CFR Indicator reflects the County Council's underlying need to borrow for capital purposes only.

Comment

The January 2021 figures were based on a Capital Plan approved as at 31 December 2021.

The updated figures reflect the following variations

(a) re-phasing between years of expenditure that is funded from borrowing including slippage between years identified at 2020/21 outturn and Q3 2021/22

(b) capital receipts (including company loans) slippage between years that affect year on year borrowing requirements

(c) variations in the level of the Corporate Capital Pot which is used in lieu of new borrowing until the Pot is required

(d) additions and variations to schemes / provisions approved that are funded from Prudential Borrowing

(e) variations in the annual Minimum Revenue Provision for debt Repayment which arise from the above

(f) Other Long Term Liabilities now include the Allerton Waste Recovery Park PFI Scheme

Prudential Indicator	Comment
4 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 County Council should ensure that debt does not, except in the short term, exceed the total of the capital financing requirement in the previous year (2020/21), plus the estimate of any additional capital financing requirement for the current (2021/22) and next two financial years (2022/23 and 2023/24). If, in any of these years, there is a reduction in the capital financing requirement, this reduction should be ignored in estimating the cumulative increase in the capital financing requirement which is used for comparison with gross external debt. This Prudential Indicator is referred to as gross debt and the comparison with the capital financing requirement (**Indicator 3**) and is a key indicator of prudence. The Corporate Director – Strategic Resources reports that the County Council had no difficulty in meeting this requirement up to 2020/21 nor are any difficulties envisaged for the current or future years of the Medium Term Financial Strategy up to 2023/24. For subsequent years, however, there is potential that the County Council may not be able to comply with the new requirement as a result of the potential for the annual Minimum Revenue Provision (MRP) reducing the Capital Financing Requirement below gross debt. This potential situation will be monitored closely. This opinion takes into account spending commitments, existing and proposed Capital Plans and the proposals in the Revenue Budget 2021/22 and Medium Term Financial Strategy report.	This Prudential Indicator was changed in 2013/14 to reflect the comparison of gross debt (external debt plus other long term liabilities) with the Capital Financing Requirement (CFR). The comparator debt figure had previously been net debt which was gross debt less investments. The Prudential Code requires that where there is a significant difference between the gross debt and the gross borrowing requirement, as demonstrated by the CFR, then the risks and benefits associated with this strategy should be clearly stated in the annual Treasury Management Strategy. The County Council's gross debt figure is currently significantly below the CFR figures shown in **Indicator 3** because of annual capital borrowing requirements being funded internally from cash balances (i.e. running down investments) rather than taking out new external debt. This situation, however, could be reversed in future as a result of two key factors: (i) externalising some or all of the internally financed CFR together with (ii) the potential for the annual Minimum Revenue Provision (MRP) for debt repayment reducing the CFR below gross debt because the debt cannot readily be prematurely repaid without incurring significant penalties (premiums). This potential situation will be monitored carefully by the Corporate Director – Strategic Resources.

Prudential Indicator

Comment

5 Authorised Limit for External Debt

In respect of its external debt, it is recommended that the County Council approves the following Authorised Limits for its total external debt for the next three financial years.

The Prudential Code requires external borrowing and other long term liabilities (PFI and Finance leases) to be identified separately.

The authorised limit for 2021/22 will be the statutory limit determined under section 3(1) of the Local Government Act 2003.

	Executive August 2021			**Update January 2022**		
Date	**Borrowing £m**	**Other Long Term Liabilities (PFi etc) £m**	**Total £m**	**Borrowing £m**	**Other Long Term Liabilities (PFi etc) £m**	**Total £m**
2021/22	303.3	176.2	479.5	390.3	176.2	566.2
2022/23	340.7	170.6	511.3	395.7	170.6	566.3
2023/24	300.2	165.4	465.5	423.4	165.4	588.8
2024/25	-	-	-	320.7	159.9	480.6

The Corporate Director – Strategic Resources confirms that these authorised limits are consistent with the County Council's current commitments, updated Capital Plan and the financing of that Plan, the 2021/22 Revenue Budget and Medium Term Financial Strategy and with its approved Treasury Management Policy Statement.

The Corporate Director – Strategic Resources also confirms that the limits are based on the estimate of most likely prudent, but not worst case, scenario with sufficient headroom over and above this to allow for operational issues (e.g. unusual cash movements). To derive these limits a risk analysis has been applied to the Capital Plan, estimates of the capital financing requirement and estimates of cashflow requirements for all purposes.

The updated figures reflect a number of refinements which are also common to the Capital Financing Requirement (see **Indicator 3**) and Operational Boundary for external debt (see **Indicator 6**). Explanations for these changes are provided under **Indicators 3 and 6** respectively.

Prudential Indicator

6 Operational Boundary for External Debt

It is recommended that the County Council approves the following Operational Boundary for external debt for the same period.

The proposed operational boundary for external debt is based on the same estimates as the Authorised Limit (ie **Indicator 5** above) but also reflects an estimate of the most likely prudent, but not worst case, scenario without the additional headroom included within the Authorised Limit to allow for eg unusual cash flows.

	Executive August 2021			Update January 2022		
Date	**Borrowing £m**	**Other Long Term Liabilities (PFi etc) £m**	**Total £m**	**Borrowing £m**	**Other Long Term Liabilities (PFi etc) £m**	**Total £m**
2021/22	283.3	176.2	459.5	370.0	176.2	546.2
2022/23	320.7	170.6	491.3	375.5	170.6	546.3
2023/24	280.2	165.4	445.5	403.4	165.4	568.8
2024/25	-	-	-	300.7	159.9	460.6

Comment

The Operational Boundary represents a key management tool for the in year monitoring of external debt by the Corporate Director – Strategic Resources.

The updated figures reflect refinements which are common to the Capital Financing Requirement (see **Indicator 3** above), together with

(a) relative levels of capital expenditure funded internally from cash balances rather than taking external debt

(b) loan repayment cover arrangements and the timing of such arrangements

These two financing transactions affect external debt levels at any one point of time during the financial year but do not impact on the Capital Financing Requirement.

Prudential Indicator | **Comment**

7 **Actual External Debt**

The County Council's external debt is set out below and consists of external borrowing from the PWLB and money markets plus other long term liabilities such as PFI and finance leases which are classified as external debt for this purpose.

	Executive August 2021				Update January 2022			
Date		Borrowing £m	Other Long Term Liabilities (PFI etc) £m	Total £m	Basis	Borrowing £m	Other Long Term Liabilities (PFI etc) £m	Total £m
31 Mar 21	Actual	236.0	151.6	387.6	Actual	236.0	151.6	387.6
31 Mar 22	Estimate	221.8	176.2	398.0	Estimate	221.8	176.2	398.0
31 Mar 23	Estimate	208.5	170.6	379.1	Estimate	208.5	170.6	379.1
31 Mar 24	Estimate	208.5	165.4	373.9	Estimate	208.5	165.4	373.9
31 Mar 25	-	-	-	-	Estimate	208.5	159.9	368.4

It should be noted that actual external debt is not directly comparable to the Authorised Limit (**Indicator 5 above**) and Operational Boundary (**Indicator 6 above**) since the actual external debt reflects a position at one point in time.

The updated estimates reflect refinements which are common to the Capital Financing Requirement (see **Indicator 3** above) together with the relative levels of capital expenditure internally funded from cash balances rather than taking external debt.

8 **Limit of Money Market Loans (Local Indicator)**

Borrowing from the money market for capital purposes (as opposed to borrowing from the PWLB) is to be limited to 30% of the County Council’s total external debt outstanding at any one point in time.

The actual position at 31 March 2021 was 8% (£20m out of a total of £236.0m) against an upper limit of 30%

This limit was introduced as a new Local Prudential Indicator in 2009/10, although the 30% limit has featured as part of the Borrowing Policy section of the County Council’s Annual Treasury Management and Investment Strategy for many years.

Prudential Indicator	Comment
9 Maturity Structure of Borrowing The upper and lower limits for the maturity structure of County Council borrowings are as follows:- The amount of projected borrowing maturing in each period as a percentage of total projected borrowing that is fixed rate:	These limits are reviewed annually and have been updated to reflect the current maturity structure of the County Council's debt portfolio.

Period	Lower Limit %	Upper Limit %	Memo item - actual at 1 April 21 %	1 April 22 %
under 12 months	0	50	6	6
12 months & within 24 months	0	25	6	6
24 months & within 5 years	0	50	4	7
5 years & within 10 years	0	75	3	3
10 years and within 25 years	0	100	7	8
25 years and within 50 years	0	100	74	70
			100	100

Prudential Indicator	Comment
10 Total Principal Sums Invested for periods longer than 365 days The 2022/23 aggregate limit of £40m for ‘non specified’ investments longer than 365 days is based on a maximum of 20% of estimated ‘core cash funds’ up to 2024/25 being made available for such investments. The purpose of this prudential limit for principal sums invested for longer than 365 days is for the County Council to contain its exposure to the possibility of loss that might arise as a result of it having to seek early repayment or redemption of principal sums invested.	**No change to this limit is proposed.** The County Council currently has no such investments that fall into this category. Prior to 1 April 2004, Regulations generally prevented local authorities from investing for longer than 365 days. As a result of the Prudential Regime however, these prescriptive regulations were abolished and replaced with Government Guidance from April 2004. This Guidance gives authorities more freedom in their choice of investments (including investing for periods longer than 365 days) and recognises that a potentially higher return can be achieved by taking a higher (ie longer term) risk. This flexibility requires authorities to produce an Annual Investment Strategy that classifies investments as either **Specified** (liquid, secure, high credit rating & less than 365 days) or **Non Specified** (other investments of a higher risk). Non Specified investments are perfectly allowable but the criteria and risks involved must be vigorously assessed, including professional advice, where appropriate. Therefore investments for 365 days+ are allowable as a Non Specified investment under the Government Guidance. The use of such investments is therefore now incorporated into the County Council's Annual Treasury Management and Investment Strategy.

SCHEDULE 3

ECONOMIC BACKGROUND

1.0 The UK.

1.1 The Monetary Policy Committee (MPC) voted 8-1 to raise Bank Rate by 0.15% from 0.10% to 0.25% and unanimously decided to make no changes to its programme of quantitative easing purchases due to finish in December 2021 at a total of £895bn.

1.2 The MPC had previously not raised Bank Rate, as markets had expected, at its November meeting. As the MPC wanted to have assurance that the labour market would get over the end of the furlough scheme on 30th September without unemployment increasing sharply; their decision was to wait until statistics were available to show how the economy had fared at this time

1.3 In December, the low 0.1% m/m rise in GDP in October suggested that economic growth had already slowed prior to the discovery of the Omicron variant in late November. In addition, CPI inflation for November increased further from 4.2% to 5.1%, confirming again how inflationary pressures had been building sharply. However, Omicron also caused a sharp fall in world oil and other commodity prices; (gas and electricity inflation has generally accounted on average for about 60% of the increase in inflation in advanced western economies).

1.4 Based on the economic data from November, the MPC raised Bank Rate in December. The hawkish tone of comments from the meeting indicated that the MPC is now concerned that inflationary pressures are building and need concerted action by the MPC to counter. This indicates that there will be more increases to come with financial markets predicting 1% by the end of 2022. The 8-1 vote to raise the rate shows that there is firm agreement that inflation now poses a threat. The MPC commented that “there has been significant upside news” and that “there were some signs of greater persistence in domestic costs and price pressures”.

1.5 In contrast, the MPC also commented that “the Omicron variant is likely to weigh on near-term activity”. But it stressed that at the November meeting it had said it would raise rates if the economy evolved as it expected and that now “these conditions had been met”. It also appeared more worried about the possible boost to inflation from Omicron itself. It said that “the current position of the global and UK economies was materially different compared with prior to the onset of the pandemic, including elevated levels of consumer price inflation”. It also noted the possibility that renewed social distancing would boost demand for goods again, (as demand for services would fall), meaning “global price pressures might persist for longer”.

1.6 These comments indicate that there has been a material reappraisal by the MPC of the inflationary pressures since their last meeting and the Bank also increased its forecast for inflation to peak at 6% next April, rather than at 5% as of a month ago. However, as the Bank has retained its guidance that only a “modest tightening” in policy will be required.

1.7 The MPC's forward guidance on its intended monetary policy on raising Bank Rate versus selling (quantitative easing) holdings of bonds is as follows:-

- raising Bank Rate as "the active instrument in most circumstances";
- raising Bank Rate to 0.50% before starting on reducing its holdings;
- once Bank Rate is at 0.50% it would stop reinvesting maturing gilts; and
- once Bank Rate had risen to at least 1%, it would start selling its holdings.

The Global Ecomony

2.0 USA.

2.1 Shortages of goods have been fuelling increases in prices and reducing economic growth potential. In November, CPI inflation hit a near 40-year record level of 6.8% but with energy prices then falling sharply, this is possibly the peak.

2.2 Shortages of labour have also been driving up wage rates sharply; this poses a considerable threat to feeding back into producer prices and then into consumer prices inflation. It now also appears that there has been a sustained drop in the labour force which suggests the pandemic has had a longer-term scarring effect in reducing potential GDP. Economic growth may therefore be reduced to between 2 and 3% in 2022 and 2023 while core inflation is likely to remain elevated at around 3% in both years instead of declining back to the Fed's 2% central target.

2.3 Fed officials expect three rate rises in 2022 of 0.25% from near zero currently, followed by three in 2023 and two in 2024, taking rates back above 2% to a neutral level for monetary policy. The first increase could come as soon as March 2022 as the chairman of the Fed stated his view that the economy had made rapid progress to achieving the other goal of the Fed – "maximum employment". The Fed forecast that inflation would fall from an average of 5.3% in 2021 to 2.6% in 2023, still above its target of 2% and both figures significantly up from previous forecasts.

3.0 EUROZONE

3.1 The slow role out of vaccines initially delayed economic recovery in early 2021 but the vaccination rate then picked up sharply. However, the arrival of Omicron is now a major headwind to growth in quarter 4 and the expected downturn into weak growth could well turn negative, with the outlook for the first two months of 2022 expected to continue to be very weak.

3.2 November's inflation figures shows that the increase in price pressures is not just due to high energy costs and global demand-supply imbalances for durable goods as services inflation also rose. Headline inflation reached 4.9% in November, with over half of that due to energy. However, oil and gas prices are expected to fall after the winter and so energy inflation is expected to plummet in 2022.

3.3 The ECB will now also need to consider the impact of Omicron on the economy, and it stated at its December meeting that it is prepared to provide further QE support if the pandemic causes bond yield spreads of peripheral countries, (compared to the yields of northern EU countries), to rise. However, that is the only reason it will support peripheral yields, so this support is limited in its scope.

4.0 CHINA

4.1 After a concerted effort following the virus outbreak in Q1 2020, economic recovery was strong in the rest of 2020; this enabled China to recover all the initial contraction. During 2020, policy makers both quashed the virus and implemented a programme of monetary and fiscal support that was particularly effective at stimulating short-term growth. At the same time, China's economy benefited from the shift towards online spending by consumers in developed markets. These factors helped to explain its comparative outperformance compared to western economies during 2020 and earlier in 2021.

4.2 However, the pace of economic growth has now fallen back in 2021 after this initial surge of recovery from the pandemic and looks likely to be particularly weak in 2022. China has been struggling to contain the spread of the Delta variant through using sharp local lockdowns - which depress economic growth. Chinese consumers are also being very wary about leaving home and so spending money on services. However, with Omicron having now spread to China, and being much more easily transmissible, this strategy of sharp local lockdowns to stop the virus may not prove so successful in future.

4.3 The People's Bank of China made a start in December 2021 on cutting its key interest rate marginally as an attempt to stimulate economic growth.

4.4 Supply shortages, especially of coal for power generation, were causing widespread power cuts to industry during the second half of 2021 and so a sharp disruptive impact on some sectors of the economy. In addition, recent regulatory actions motivated by a political agenda to channel activities into officially approved directions, are also likely to reduce the dynamism and long-term growth of the Chinese economy.

5.0 JAPAN

5.1 Recent business surveys indicate that the economy has been rebounding rapidly in 2021 once the bulk of the population had been double vaccinated and new virus cases had plunged. However, Omicron could reverse this initial success in combating Covid.

5.2 The Bank of Japan is continuing its very loose monetary policy but with little prospect of getting inflation back above 1% towards its target of 2%, any time soon: indeed, inflation was actually negative in July. New Prime Minister Kishida, having won the November general election, brought in a supplementary budget to boost growth, but it is unlikely to have a major effect.

6.0 WORLD GROWTH

6.1 World growth was in recession in 2020 but recovered during 2021 until starting to lose momentum in the second half of the year, though overall growth for the year is expected to be about 6% and to be around 4-5% in 2022. Inflation has been rising due to increases in gas and electricity prices, shipping costs and supply shortages, although these should subside during 2022.

6.2 **Supply Shortages**. The pandemic and extreme weather events, followed by a major surge in demand after lockdowns ended, have been highly disruptive of extended worldwide supply chains with further disruption expected. It is expected that these issues will gradually be resolved, but will continue to contribute to a spike upwards in inflation and shortages of materials and goods available to purchase in the short term.

7.0 INTEREST RATE FORECASTS

7.1 The interest rate forecasts provided by Link Group are predicated on an assumption that there is no break-up of the Eurozone or EU within the forecasting period, despite the major challenges that are looming up, and that there are no failures in international relations, especially between the US and China / North Korea and Iran, which have a major impact on international trade and world GDP growth.

7.2 It is not expected that Bank Rate will go up fast after the initial rate rise as the supply potential of the economy is not likely to have taken a major hit during the pandemic: it should, therefore, be able to cope well with meeting demand after supply shortages subside over the next year, without causing inflation to remain elevated in the medium-term, or to inhibit inflation from falling back towards the MPC’s 2% target after the spike up to around 5%. The forecast includes five increases in Bank Rate over the three-year forecast period to March 2025, ending at 1.25%. However, these forecasts may need to be revised within a short time frame as a result of:-

- the economic recovery runs out of steam, resulting in stagflation;
- continuation of supply shortages;
- the spend in which consumers spend savings retained over the pandemic;
- new Covid variants resulting in the possibility of further lockdowns; and
- the UK evokes article 16 of the Brexit deal over dislocation in trading arrangements with Northern Ireland.

7.3 In summary, with the high level of uncertainty prevailing on several fronts, interest rate forecasts are expected to be revised again.

8.0 The balance of risks to the UK

The overall balance of risks to economic growth in the UK is now to the downside, including residual risks from Covid and its variants - both domestically and their potential effects worldwide.

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

- **UK** – Labour and supply shortages prove more disruptive and depress economic activity;

- **The Government** acts too quickly to cut expenditure to balance the national budget;

- **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;**

- **UK / EU trade arrangements** – if there is a major impact on trasde flows and financial sercies due to complications or lack of co-operation;

- weak capitalisation of some **European banks**, which could be undermined further depending on extent of credit losses resultant of the pandemic;

- **German general election in September 2021 –** Germany faces months of uncertainly while a new coalition government is formed;

- **Other minority EU governments.** Austria, Sweden, Spain, Portugal, Netherlands, Ireland and Belgium also have vulnerable minority governments dependent on coalitions which could prove fragile;

- **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

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

- 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.

SCHEDULE 4

NORTH YORKSHIRE COUNTY COUNCIL ANNUAL INVESTMENT STRATEGY 2022/2023 – 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”within the UK or from Countries with 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
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

SCHEDULE 4

NORTH YORKSHIRE COUNTY COUNCIL ANNUAL INVESTMENT STRATEGY 2022/23 – 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 Worthiness Policy	In-house	25% of agreed maximum proportion of Core Cash funds (£10m)	£5m	5 years

Investment	Security / Minimum Credit Rating	Circumstances of Use	Max % of total investments	Maximum investment with any one counterparty	Max. maturity period
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
Property Funds	Organisations assessed as having “high credit quality”	In-house after consultation with Treasury Management Advisor	100% of agreed maximum proportion of Core Cash funds (£40m)	£5m	10 years

SCHEDULE 5

APPROVED LENDING LIST 2022/23

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	-	-
Australia and New Zealand Banking Group	AUS	30.0	365 days	-	-
Toronto-Dominion Bank	CAN	30.0	365 days	-	-
Credit Industriel et Commercial	FRA	30.0	365 days	-	-
Landesbank Hessen-Thueringen Girozentrale (Helaba)	GER	30.0	6 months	-	-
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 2021

SCHEDULE 6

APPROVED COUNTRIES FOR INVESTMENTS

This list is based on those countries which have sovereign ratings of AA- or higher, (we show the lowest rating from Fitch, Moody's and S&P) and also, (except - at the time of writing - for Hong Kong, Norway and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Link Group credit worthiness service.

Sovereign Rating	Country
AAA	Australia Denmark Germany Luxemburg Netherlands Norway Singapore Sweden Switzerland
AA+	Canada Finland USA
AA	Abu Dhabi (UAE) France
AA-	Belgium Hong Kong Qatar UK