

NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

17 MARCH 2025

TREASURY MANAGEMENT AND CAPITAL STRATEGIES

Report of the Corporate Director – Resources

1.0 PURPOSE OF THE REPORT

1.1 To review the 2025/26 Treasury Management and Capital Strategies

- 2.0 In its scrutiny role of the 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 Council is required to approve an up-to-date Annual Treasury Management before the start of the new financial year, it is therefore not possible for the Audit Committee to review this document in advance of its submission to Executive and the subsequent consideration by Council on 14 February 2025.
- 2.2 As in previous years, therefore, the Treasury Management Strategy 2025/26 (Annex 1) and Capital Strategy (Annex 2) are submitted for review by the Audit Committee following Council's approval last month and any resulting proposals for change from Audit Committee will 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 Council at its meeting on 21 May 2025.

3.0 RECOMMENDATION

3.1 That Members review the 2025/26 Treasury Management and Capital Strategies.

Annex 1 Treasury Management Strategy
Annex 2 Capital Strategy

GARY FIELDING
Corporate Director – Strategic Resources

March 2025

SECTION 1 - TREASURY MANAGEMENT STRATEGY 2025/26

1.1 Introduction and Context

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

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the 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 Council risk or cost objectives.

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.

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.

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.”

1.2 Reporting Requirements

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

1.2.1 Capital Strategy

The CIPFA 2021 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; and
- the implications for future financial sustainability.

The aim of this capital strategy is to ensure that all elected members on the full council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

The Council's Capital Strategy includes the requirements of the 2021 Treasury Management Code and Prudential code: -

1. the approach to investments for service or commercial purposes (non-treasury investments), including defining the authority's objectives, risk appetite and risk management in respect of these investments, and processes ensuring effective due diligence;
2. an assessment of affordability, prudence and proportionality in respect of the authority's overall financial capacity (i.e., whether plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services);
3. details of financial and other risks of undertaking investments for service or commercial purposes and how these are managed;
4. limits on total investments for service purposes and for commercial purposes respectively (consistent with any limits required by other statutory guidance on investments);
5. requirements for independent and expert advice and scrutiny arrangements (while business cases may provide some of this material, the information contained in them will need to be periodically re-evaluated to inform the authority's overall strategy);
6. State compliance with paragraph 51 of the Prudential Code in relation to investments for commercial purposes, in particular the requirement that an authority must not borrow to invest primarily for financial return.

This Capital Strategy [**Annex 2**] is reported separately from the Treasury Management Strategy Statement. This ensures the separation of the core treasury function under security, liquidity

and yield principles, and the policy, service and commercial investments usually arising from expenditure on an asset.

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

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.

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

1.2.2 Treasury Management Reporting

Quarterly reporting to members is now required under the 2021 Treasury Management Code, however it is not necessary to take these reports to full Council. The full 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) **Prudential and Treasury Indicators and Treasury Strategy** (this report) –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, to comply with the 2021 revision of the CIPFA Treasury Code, the Executive will receive quarterly update reports including the Treasury Management Indicators and Prudential Indicators as part of the authority's general revenue and capital monitoring.
- 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.

1.2.3 Scrutiny

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

1.3 Treasury Management Strategy 2025/26

The Treasury Management strategy for 2025/26 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 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.

These elements cover the requirements of the Local Government Act 2003, Ministry of Housing, Communities and Local Government (MHCLG) Investment Guidance, DLUHC MRP Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code.

1.4 Training

The CIPFA Treasury Management 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.

The revised TM Code introduces strengthened requirements for skills and training, and for investments which are not for specifically treasury management purposes i.e. non-treasury investments, where further detail is contained in the Capital Strategy.

The scale and nature of training requirements will depend on the size and complexity of the Council's treasury management needs. The Council will need to assess whether treasury management staff and members have the required knowledge and skills to undertake the roles and if those skills have been maintained and are up to date.

As a minimum, the Council will carry out the following to monitor and review knowledge and skills:

- record attendance at training and ensure action is taken where poor attendance is identified;
- prepare tailored learning plans for treasury management officers and board/council members;

- require treasury management officers and board/council members to undertake self-assessment against the required competencies set out in Treasury Management Practice (TMP) 10; and
- have regular communication with officers and board/council members, encouraging them to highlight training needs on an ongoing basis.

Member training has been provided by Treasury Management Consultants, Link Group (Link) and further training will be provided as required. The training needs of treasury management officers are periodically reviewed. A formal record of the training received by officers central to the Treasury function will be maintained and similarly, a formal record of the treasury management/capital finance training received by members

The Council maintains a “Knowledge and skills policy” within its Treasury Management Practices (TMPs). Specifically, TMP 10 includes the details of the competencies required for the core roles, a knowledge and skills schedule and details of how the council will monitor and review these skills and knowledge. This policy aims to ensure the effective acquisition and retention of treasury management skills for those responsible for the management, delivery, governance, decision-making and compliance with legislative requirements

1.5 Treasury Management Consultants

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

The Council recognises that responsibility for treasury management decisions remains with the organisation 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.

It also recognises that there is value in employing external providers of treasury management services to acquire access to specialist skills and resources. The 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.

SECTION 2 - CAPITAL PRUDENTIAL INDICATORS 2025/26 – 2027/28

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

2.1 Capital Expenditure and Financing

This prudential indicator is a summary of the 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.

Capital expenditure	2023/24 Actual £k	2024/25 Estimate £k	2025/26 Estimate £k	2026/27 Estimate £k	2027/28 Estimate £k
Non-HRA	156,448	204,074	263,111	64,826	40,403
HRA	21,767	28,048	64,270	61,965	66,946
Total	178,215	232,122	327,381	126,791	107,348

The capital expenditure plans exclude 'other long-term liabilities' such as PFI and leasing arrangements that already include their own borrowing facility. The Council's Capital Plans do not include any plans on "projects for yield" schemes and there is no intention to purchase commercial assets primarily for yield.

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. A shortfall that results in a funding borrowing need - net financing need for the year - is indicated in years 2023/24 - 2027/28.

Financing of capital expenditure	2023/24 Actual £k	2024/25 Estimate £k	2025/26 Estimate £k	2026/27 Estimate £k	2027/28 Estimate £k
Capital receipts	8,499	3,195	24,965	10,192	17,975
Capital grants	108,241	162,470	205,514	43,685	39,928
Revenue	40,589	49,705	74,735	55,650	37,870
Net financing need for the year	20,887	16,751	22,167	17,265	11,576

2.2 The Council's borrowing need - the Capital Financing Requirement (CFR)

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

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

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

The Council is asked to approve the CFR projections below:

	2023/24 Actual £k	2024/25 Estimate £k	2025/26 Estimate £k	2026/27 Estimate £k	2027/28 Estimate £k
Capital Financing Requirement					
Non-HRA	613,731	635,038	621,860	598,533	564,901
HRA	103,323	105,678	118,604	136,752	160,586
Total CFR	717,054	740,716	740,464	735,285	725,486
Movement in CFR	1,551	23,662	(252)	(5,179)	(9,798)

Movement in CFR represented by					
Net financing need for the year*	20,887	45,275	22,167	17,265	11,576
Less MRP/VRP and other financing movements	(19,335)	(21,613)	(22,420)	(22,444)	(21,374)
Movement in CFR	1,551	23,662	(252)	(5,179)	(9,798)

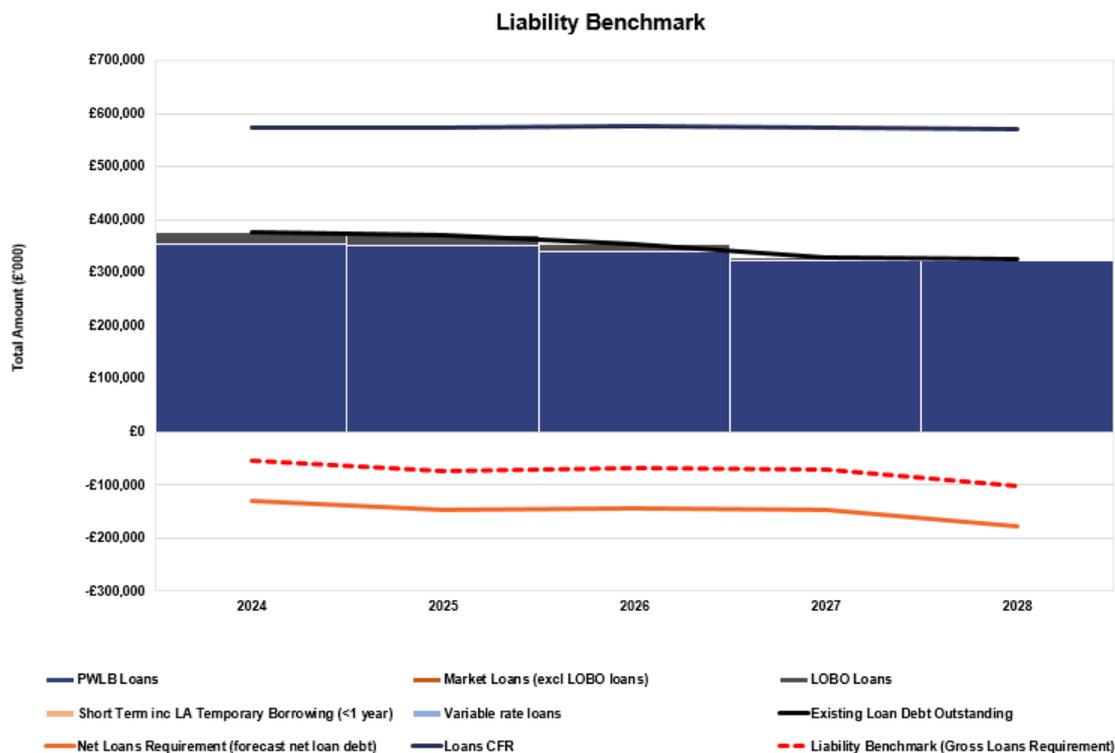
*Net financing need for the year includes Other Long Term Liabilities (Finance Leases) not included in Table 2.1

2.3 The Liability Benchmark

The Council is required to estimate and measure the Liability Benchmark for the forthcoming financial year and the following two financial years, as a minimum, where this Council has provided the full debt maturity profile out to 50+ years as recommended by CIPFA.

There are four components to the LB: -

1. **Existing loan debt outstanding:** the Authority's existing loans that are still outstanding in future years.
2. **Loans CFR:** this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP. With only approved prudential borrowing being included in the calculation, the Loans CFR will peak after four years where the other inputs are projected forward for 50 years+.
3. **Net loans requirement:** this will show the Council's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.
4. **Liability benchmark (or gross loans requirement):** this equals net loans requirement plus short-term liquidity allowance. The short-term liquidity allowance is an adequate (but not excessive) allowance for a level of excess cash to be invested short-term to provide access to liquidity if needed due to short-term cash flow variations, for example.



The Liability benchmark is low due to the high level of investments in comparison to the actual borrowing position, indicating that there is no future borrowing requirement.

2.4 Core funds and expected investment balances

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.

Year End Resources	2023/24 Actual £k	2024/25 Estimate £k	2025/26 Estimate £k	2026/27 Estimate £k	2027/28 Estimate £k
Fund balances / reserves	682,394	604,800	585,000	581,300	583,500
Capital receipts	25,906	21,500	21,500	21,500	21,500
Provisions	26,344	26,344	26,344	26,344	26,344
Other	0	0	0	0	0
Total core funds	734,644	652,644	632,844	629,144	631,344
Working capital	94,801	94,801	94,801	94,801	94,801
Under/over borrowing	(194,859)	(198,455)	(206,597)	(199,766)	(171,865)
Expected investments	634,586	548,990	521,048	524,179	554,280

2.5 Minimum Revenue Provision (MRP) policy statement

Under Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, where the Council has financed capital expenditure by borrowing it is required to make a provision each year through a revenue charge, known as Minimum Revenue provision (MRP). The Council is also allowed to undertake additional voluntary payments, the Voluntary Revenue provision (VRP), if required.

The Council is required to calculate a prudent provision of MRP which ensures that the outstanding debt liability is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits. The MRP Guidance gives four ready-made options for calculating MRP, however the Authority can use any other reasonable basis that it can justify as prudent

The MRP policy statement requires Full Council approval in advance of each financial year. The Council is recommended to approve the following MRP Statement:

- a) For capital expenditure incurred before 1 April 2008 (known as supported borrowing), MRP will be based on 4% of the CFR at that date;
- b) From 1 April 2008 for all unsupported borrowing not covered by points c-f, the MRP policy will be;

Asset life method (option 3 of the statutory guidance) – MRP will be based on the estimated life of the assets using equal instalments of principal. In accordance with

the regulations this option must also be applied for any expenditure capitalised under a Capitalisation Direction.

The asset life method provides for a reduction in the borrowing need over the asset's life.

- c) For capital expenditure on non-commercial loans to third parties where the principal element of the loan is being repaid in annual instalments, the capital receipts arising from the principal loan repayments will be used to reduce the CFR instead of MRP. Where no principal repayment is made each year (and the loan can be classified as service expenditure) the Council will not make MRP unless an actual or expected credit loss is recognised on any capital loan and then the MRP charge in the year will not be less than the loss amount. Where a shortfall is expected the S151 Officer will make an individual assessment on a prudent level of MRP to be made.

For capital expenditure on any commercial loans to third parties, MRP will be charged in accordance with the useful life of the assets purchased by the third party. MRP charged on this basis will be reduced by any principal element of the loan that is repaid in annual instalments. In addition, where an actual or expected credit loss is recognised against the loan, then a further MRP charge in the year will be recognised, not being less than the loss amount. Where a shortfall is expected the S151 Officer will make an individual assessment on a prudent level of MRP to be made.

- d) For capital expenditure on investment / development properties, under the current Government proposed amendments, where loan repayments are received in year those capital receipts will be used to reduce the CFR in that year. However, where no capital receipt is received, or where no future capital receipts are anticipated, a prudent level of MRP will be charged based on the asset life method using equal instalments of principal
- e) For PFI schemes or finance leases, MRP will be charged at an amount equal to the principal element of the annual repayment. In any instances where a lease (or part of a lease) or PFI contract is brought onto the balance sheet in-year, having previously been accounted for via the Council's revenue accounts, then a further, one-off MRP charge may be recognised in-year as a result of this exercise, and any subsequent recognition and measurement of the resulting liability on the Council's balance sheet.
- f) There is no requirement to make MRP for the HRA but there is a requirement for a charge for depreciation to be made. VRP can also be made to reduce outstanding debt in a shorter period.

MRP Overpayments - Under the MRP Guidance any charges made in excess of the statutory (MRP are known as VRP. VRP can, be reclaimed in later years if deemed necessary or prudent. For these sums to be reclaimed in future, this policy must disclose the cumulative overpayment made each year. Up until the 31.3.24 the total VRP overpayments were £44.6m, including £29.6m relating to the HRA.

SECTION 3 - BORROWING

The capital expenditure plans set out in **Section 2** provide details of the service activity of the Council. The treasury management function ensures that the 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 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.

3.1 Current portfolio position

The overall treasury management portfolio as at 31 March 2024 and for the position as at 30 September 2024 are shown below for both borrowing and investments.

TREASURY PORTFOLIO				
	actual	actual	current	current
	31.3.24	31.3.24	30.09.24	30.09.24
Treasury investments	£m	%	£m	%
banks	304	55	408	61
building societies	0	0	0	0
local authorities	230	42	250	37
money market funds	0	0	0	0
other	0	0	0	0
Total managed in house	534	98	658	98
Total managed externally – property funds	16	3	16	2
Total Treasury Investments	550	100	674	100
Less other bodies funds	(42)		(89)	
Total treasury investments excluding other bodies funds	508	100	585	100
Treasury external borrowing	£m	%	£m	%
PWLB	354	94	352	94
LOBOs	24	6	19	6
Total external borrowing	378		371	100
Net treasury investments / (borrowing)	130		213	

The 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.

Forward projections for borrowing	2023/24 Actual £k	2024/25 Estimate £k	2025/26 Estimate £k	2026/27 Estimate £k	2027/28 Estimate £k
External Debt					
Debt at 1 April	379,822	377,737	371,112	354,447	327,740
Expected change in Debt	(2,085)	(6,625)	(16,665)	(26,707)	(1,750)
Other long-term liabilities (OLTL)	144,069	140,404	163,420	157,526	151,526
Expected change in OLTL	(3,665)	23,159	(5,864)	(6,030)	(5,255)
Actual gross debt at 31 March	518,741	534,675	512,003	479,267	472,262
The CFR	717,054	740,716	740,464	735,285	725,486
Under / (over) borrowing	198,913	206,041	228,461	256,018	253,224

Within the range of prudential indicators there are several key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the 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 2025/26 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.

Officers are currently reviewing the Council's External Borrowing position to identify options around debt restructuring, with the aim to identify any potential saving opportunities that may exist. An indicative £500k savings target has been identified as part of this exercise, and officers are working with the Council's Treasury Management consultants, Link Group, to investigate the potential repayment of the Council's Lender Option Buyer Option (LOBO) loans.

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

3.2 Treasury Indicators: limits to borrowing activity

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	2024/25 Estimate £k	2025/26 Estimate £k	2026/27 Estimate £k	2027/28 Estimate £k
Debt	427,737	421,112	404,447	377,740
Other long-term liabilities	208,420	202,556	196,526	190,272

Total	636,157	623,668	600,974	569,012
-------	---------	---------	---------	---------

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.

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.

The Council is asked to approve the following authorised limit:

Authorised limit	2024/25 Estimate £k	2025/26 Estimate £k	2026/27 Estimate £k	2027/28 Estimate £k
Debt	447,737	441,112	424,447	397,740
Other long-term liabilities	208,420	202,556	196,526	190,272
Total	656,157	643,668	620,974	589,012

3.3 Prospects for interest rates

Link Group are the Councils treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table shows their view on future interest rates. Link provided the following forecasts on 11 November. These are forecasts for PWLB certainty rates.

Link Group Interest Rate View	11.11.24												
	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
BANK RATE	4.75	4.50	4.25	4.00	4.00	3.75	3.75	3.75	3.50	3.50	3.50	3.50	3.50
3 month ave earnings	4.70	4.50	4.30	4.00	4.00	4.00	3.80	3.80	3.80	3.50	3.50	3.50	3.50
6 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
12 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
5 yr PWLB	5.00	4.90	4.80	4.60	4.50	4.50	4.40	4.30	4.20	4.10	4.00	4.00	3.90
10 yr PWLB	5.30	5.10	5.00	4.80	4.80	4.70	4.50	4.50	4.40	4.30	4.20	4.20	4.10
25 yr PWLB	5.60	5.50	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.50
50 yr PWLB	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.40	4.30	4.30

The Link forecast for interest rates, updated on 11 November, reflected the outcome of the US Presidential Election and the 30th October UK budget announcements. In summary, Link's Bank Rate forecast is now 50bps – 75bps higher than was previously the case, whilst their PWLB forecasts have been materially lifted to not only reflect increased concerns around the future path of inflation, but also the increased level of Government borrowing over the term of the current Parliament.

Link forecast the next reduction in Bank Rate to be made in February and for a pattern to evolve whereby rate cuts are made quarterly and in keeping with the release of the Bank's Quarterly Monetary Policy Reports (February, May, August and November).

Any movement below a 4% Bank Rate will, nonetheless, be very much dependent on inflation data in the second half of 2025. The fact that the November MPC rate cut decision saw a split vote of 8-1 confirms that there are already some concerns around inflation's stickiness, and with recent public sector wage increases beginning to funnel their way into headline average earnings data, the market will be looking very closely at those releases.

Gilt yields and PWLB rates

The overall longer-run trend is for gilt yields and PWLB rates to fall back over the timeline of Link's forecasts, but the risks to forecasts are to the upsides. Link's target borrowing rates are set **two years forward** (as they expect rates to fall back) and the current PWLB (certainty) borrowing rates are set out below: -

PWLB debt	Current borrowing rate as at 11.11.24 p.m.	Target borrowing rate now (end of Q3 2026)	Target borrowing rate previous (end of Q3 2026)
5 years	5.02%	4.30%	3.90%
10 years	5.23%	4.50%	4.10%
25 years	5.66%	4.90%	4.40%
50 years	5.42%	4.70%	4.20%

Borrowing advice: Link's long-term (beyond 10 years) forecast for Bank Rate has been increased to 3.25% (from 3%). As all PWLB certainty rates are currently significantly above this level, borrowing strategies will need to be reviewed in that context. Overall, better value can be obtained at the shorter end of the curve and short-dated fixed LA to LA monies should also be considered. Temporary borrowing rates will, generally, fall in line with Bank Rate cuts.

Link's suggested budgeted earnings rates for investments up to about three months' duration in each financial year are set out below.

Average earnings in each year	Now	Previously
2024/25 (residual)	4.60%	4.25%
2025/26	4.10%	3.35%
2026/27	3.70%	3.10%
2027/28	3.50%	3.25%
2028/29	3.50%	3.25%
Years 6 to 10	3.50%	3.25%
Years 10+	3.50%	3.50%

Link will continue to monitor economic and market developments as they unfold. Typically, Link formally review their forecasts following the quarterly release of the Bank of England's Monetary Policy Report but will consider our position on an ad hoc basis as required.

3.4 Borrowing strategy

The Authority 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 Authority's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as medium and longer dated borrowing rates are expected to fall from their current levels, albeit only once prevailing inflation concerns are addressed by restrictive near-term monetary policy. That is, Bank Rate remains relatively elevated in 2025 even if some rate cuts arise.

Against this background and the risks within the economic forecast, caution will be adopted with the 2025/26 treasury operations. The Corporate Director 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, 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, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.*

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

Any decisions will be reported to the Executive and Audit Committee at the next available opportunity.

3.5 Policy on borrowing in advance of need

The Council will not borrow more than or in advance of its needs purely 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, there is a clear business case for doing so and that the Authority can ensure the security of such funds.

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.

3.6 Debt rescheduling

Rescheduling of current borrowing in our debt portfolio may be considered whilst premature redemption rates remain elevated but only if there is surplus cash available to facilitate any repayment, or rebalancing of the portfolio to provide more certainty is considered appropriate.

3.7 New financial institutions as a source of borrowing and / or types of borrowing

Currently the PWLB Certainty Rate is set at gilts + 80 basis points. However, consideration may still need to be given to sourcing funding from the following sources for the following reasons:

- Local authorities - primarily shorter dated maturities out to 3 years are generally still cheaper than the Certainty Rate.
- Financial institutions - primarily insurance companies and pension funds but also some banks, out of forward dates where the objective is to avoid a “cost of carry” or to achieve refinancing certainty over the next few years).

Any consideration of alternative sources of funding, other than those highlighted above, will only be undertaken in conjunction with treasury advisors, Link.

SECTION 4 - ANNUAL INVESTMENT STRATEGY

4.1 Investment policy – management of risk

The Ministry of Housing, Communities and Local Government (MHCLG) and CIPFA have extended the meaning of ‘investments’ to include both financial and non-financial investments. This report deals solely with treasury (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, (**ANNEX 2**).

The Council’s investment policy has regard to the following: -

- MHCLG’s Guidance on Local Government Investments (“the Guidance”)
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 (“the Code”)
- CIPFA Treasury Management Guidance Notes 2021

The Council’s investment priorities will be security first, portfolio liquidity second and then yield, (return). The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and within the Council’s risk appetite.

In the current economic climate, it is considered appropriate to maintain a degree of liquidity to cover cash flow needs but to also consider “laddering” investments for periods up to 12 months with high credit rated financial institutions, whilst investment rates remain elevated, as well as wider range fund options.

The above guidance from the MHCLG and CIPFA place a high priority on the management of risk. The 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 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 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 or have less than a year left to run to maturity if originally, they were classified as being non-specified investments solely due to the maturity period exceeding one year.
 - **Non-specified investments** are those with less high credit quality, may be for periods in more than one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.
- e) **Non-specified investments limit.** The Council has determined that it will limit the maximum total exposure to non-specified investments as being 20% of the total investment portfolio.
 - f) **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the criteria outlined in **paragraphs 4.2 & 4.3.**
 - g) **Transaction limits** are set for each type of investment in through applying the criteria outlined in **paragraph 4.2 & 4.3.**
 - h) The Council will set a limit for the amount of its investments which are invested for **longer than 365 days (paragraph 4.4),**
 - i) Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating, (paragraph 4.3)**
 - j) The 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 Council in the context of the expected level of cash balances and need for liquidity throughout the year.
 - k) All investments will be denominated in **sterling.**
 - l) As a result of the change in accounting standards for 2023/24 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 MHCLG, concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31.3.23. Subsequently, a further extension to the over-ride to 31.3.25 was agreed by Government

However, the 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.

Changes in risk management policy from last year

The risk management policy is in line with the policy which was unchanged from the previous year.

4.2 Creditworthiness policy

The 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 Council to determine the suggested duration for investments.

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.

Typically, the minimum credit ratings criteria the 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.

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

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

In addition to the use of credit ratings the 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 Council's lending list.

Sole reliance will not be placed on the use of this external service. In addition, the 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.

Creditworthiness

Significant levels of downgrades to Short- and Long-Term credit ratings have not materialised since the pandemic in March 2020. In the main, where they did change, any alterations were limited to Outlooks. Nonetheless, when setting minimum sovereign debt ratings, this Authority will not set a minimum rating for the UK.

CDS prices

Although bank CDS prices, (these are market indicators of credit risk), spiked upwards during the autumn of 2022, 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. Link monitor CDS prices as part of their creditworthiness service to local authorities and the Council has access to this information.

Environmental, social and governance (ESG)

This is a developing area, and for the purpose of the Council's treasury investments the Council's ESG policies and the environmental and climate change policy, will have a trickle-down effect into Treasury Management activity. Investments will still comply with SLY, Security, Liquidity, Yield requirements in the first instance. Treasury Management Practice 1 – Risk Management – has been expanded to include a high-level reference to ESG aspects of Treasury Management where creditworthiness and counterparty policies are in place to mitigate investment risk where the ESG risks are also incorporated.

4.3 Other Limits

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

- a) Non-specified treasury management investment limit. The Council has determined that it will limit the maximum total exposure of treasury management investments to non-specified treasury management investments as being £60m, being approximately 10% of the total treasury management investment portfolio.
- b) Country limit. The Council has determined that, for counterparties outside the UK, it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch or equivalent. The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix D. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.
- c) **Countries / Groups / Sector limits.** In addition
 - Limits in place will apply to a group of companies/institutions
 - Sector limits will be monitored regularly for appropriateness

4.4 Investment strategy

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. The current shape of the yield curve suggests that the risks are relatively balanced between Bank Rate staying higher for longer, if inflation picks up markedly through 2025 post the 30 October 2024 Budget, or it may be cut quicker than expected if the economy stagnates. The economy only

grew 0.1% in Q3 2024, but the CPI measure of inflation is now markedly above the 2% target rate set by the Bank of England's Monetary Policy Committee two to three years forward.

Accordingly, while most cash balances are required in order to manage the ups and downs of cash flow, 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.

Investment returns expectations. The current interest rate forecast includes a forecast for Bank Rate to fall to a low of 3.5%.

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:

Average earnings in each year	Now
2024/25 (residual)	4.60%
2025/26	4.10%
2026/27	3.70%
2027/28	3.50%
2028/29	3.50%
Years 6 to 10	3.50%
Years 10+	3.50%

As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts.

For its cash flow generated balances (cash required for liquidity purposes), the Council will seek to utilise its instant access and notice accounts, money market funds and short-dated deposits, (overnight to 100 days) to benefit from the compounding of interest.

Change of investment strategy - The Council's investment strategy is consistent with the prior year investment strategy.

Investment treasury indicator and limit - total principal funds invested for greater than 365 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment and are based on the availability of funds after each year-end.

The Council is asked to approve the following treasury indicator and limit:

Upper limit for principal sums invested for longer than 365 days			
	2025/26	2026/27	2027/28
	£m	£m	£m
Principal sums invested for longer than 365 days	60	60	60
Current investments as at 31.12.24 in excess of 1 year maturing in each year	0	0	0

4.5 Investment performance / risk benchmarking

This Council will use investment benchmarks to assess the investment portfolio performance for internally and externally managed funds.

Internal investment portfolio - The SONIA (Sterling Overnight Index Average) rate will be used to compare the yield on the internal investments portfolio. The measure is used to demonstrate the performance of the organisation. SONIA is the rate published each day by the Bank of England and reflects overnight rates paid on eligible sterling denominated deposit transactions conducted the previous day. The backward looking average 7 day compound rate will be used over a quarter for comparison with the actual portfolio.

It is important to understand that the benchmark has changed from previous years as the 7-day LIBID rate is no longer published by the Bank of England. This benchmark is an active benchmark as it reflects the movement of the market. Using the backward-looking SONIA rates data reflects the environment in which investments are made.

This benchmark is a simple guide to maximum risk, so could be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Any breach of the benchmark will be reported, with supporting reasons in the quarterly monitoring reports.

Yield - the Council has adopted to measure the internal investment portfolio yield compared to the industry benchmark rates

- **Average Investment return against the backward looking 7-day SONIA compound rate**

External investment portfolio - The performance of externally managed funds will be benchmarked against an appropriate published index depending on the fund type as described in section below.

4.6 External Fund Managers

As of Q2 24/25 the Council has £15.9m externally managed investments on a pooled basis across the following funds:-

- Blackrock UK Property Fund

- Threadneedle Property Unit Trust
- Fidelity UK Real Estate Fund
- Federated Hermes Property Unit Trust

The Council's external fund manager(s) will comply with the Annual Investment Strategy. The Council fully appreciates the importance of monitoring the activity and performance of its appointed external fund manager and to aid this assessment, the Council is provided with a suite of regular reports.

In addition to formal reports, the Council also meets with representatives of the fund manager. These meetings allow for additional scrutiny of the manager's activity, discussions on the outlook for the fund(s) as well as the wider markets.

4.7 End of year investment report

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

5 APPENDICES

- A. Prudential and treasury indicators
- B. Treasury management practice 1 – credit and counterparty risk management
- C. Approved Lending List
- D. Approved sources of long and short term borrowing
- E. Approved countries for investments
- F. Treasury management scheme of delegation
- G. The treasury management role of the section 151 officer

THE CAPITAL PRUDENTIAL AND TREASURY INDICATORS 2024/25 – 2027/28

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

Capital expenditure

This indicator shows a breakdown of planned capital expenditure by service. If there were any capital expenditure plans defined as projects for yield (would be a capital investment made wholly or mainly to generate financial return) these would be shown in a separate line.

Capital expenditure	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Children and Young People's Service	22,105	38,203	26,611	11,396	8,999
Health and Adult Services	112	647	5,710	15,000	15,000
Resources	17,513	16,641	25,814	4,957	660
Community Development	41,159	35,447	51,387	18,959	15,559
Environment	75,559	113,136	153,589	14,514	185
Non-HRA	156,448	204,074	263,111	64,826	40,403
HRA	21,767	28,048	64,270	61,965	66,946
Total	178,215	232,122	327,381	126,791	107,348

Affordability prudential indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are also required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:

a. Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital, (borrowing and other long-term obligation costs net of investment income), against the net revenue stream.

%	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Non-HRA	2.47%	2.77%	3.65%	3.77%	3.34%
HRA	12.26%	7.96%	10.83%	12.31%	14.22%

b. HRA debt ratios

	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
HRA debt £m	99,532	98,354	97,145	80,905	79,631
HRA revenues £m	41,382	44,987	45,936	47,637	49,588
Ratio of debt to revenues	2.41	2.19	2.11	1.70	1.61

	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
HRA debt £m	99,532	99,354	97,145	80,905	79,631
Number of HRA dwellings	8,322	8,386	8,475	8,583	8,794
Debt per dwelling £k	11.96	11.73	11.46	9.43	9.06

Maturity structure of borrowing

Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large sums falling due for refinancing and are required for upper and lower limits.

The Council is asked to approve the following treasury indicators and limits:

Maturity structure of borrowing 2025/26		
	Lower	Upper
Under 12 months	0%	15%
12 months to 2 years	0%	15%
2 years to 5 years	0%	15%
5 years to 10 years	0%	25%
10 years to 20 years	0%	25%
20 years to 30 years	0%	45%
30 years to 40 years	0%	45%
40 years and above	0%	45%

TREASURY MANAGEMENT PRACTICE (TMP1) – CREDIT AND COUNTERPARTY RISK MANAGEMENT

This appendix should be used in conjunction with sections 4.2 Creditworthiness policy and 4.3 Other limits.

SPECIFIED INVESTMENTS: All such investments will be sterling denominated, with **maturities up to a maximum of 1 year**, meeting the minimum ‘high’ quality criteria where applicable. (Non-specified investments which would be specified investments apart from originally being for a period longer than 12 months, will be classified as being specified once the remaining period to maturity falls to under twelve months.)

NON-SPECIFIED INVESTMENTS: These are any investments which do not meet the specified investment criteria. A maximum of 20% will be held in aggregate in non-specified investment.

A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made, it will fall into one of the above categories.

The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

SPECIFIED INVESTMENTS:

(All such investments will be sterling denominated, with **maturities up to a maximum of 1 year**, meeting the minimum ‘high’ rating criteria where applicable)

	Minimum ‘High’ Credit Criteria	Use
Debt Management Agency Deposit Facility	--	In-house
Term deposits – local authorities	--	In-house
Term deposits – banks and building societies**	Colour Band Green	In-house

Term deposits with nationalised banks and banks and building societies

	Minimum Credit Criteria	Use
UK part nationalised banks	Colour Band Blue	In-house

Other specified investments

	Minimum 'High' Credit Criteria	Use
UK Government Gilts	UK sovereign rating	In-house buy and hold and Fund Managers
Bonds issued by multilateral development banks	AAA or Government backed	In-house buy and hold and Fund Managers
Bonds issued by a financial institution which is explicitly guaranteed by the UK Government e.g., National Rail	UK sovereign rating	In-house buy and hold and Fund Managers
Treasury Bills	UK sovereign rating	In house and Fund Managers

Collective Investment Schemes structured as Open-Ended Investment Companies (OEICs): -

	Minimum 'High' Credit Criteria	Use
1a. Money Market Funds (CNAV)	Funds must be AAA rated (MMF rating)	In-house and Fund Managers
1b. Money Market Funds (LVNAV)	Funds must be AAA rated (MMF rating)	In-house and Fund Managers
1c. Money Market Funds (VNAV)	Funds must be AAA rated (MMF rating)	In-house and Fund Managers

Accounting treatment of investments - The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Council. To ensure that the Council is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

NON-SPECIFIED INVESTMENTS: A maximum of £60m will be held in aggregate in non-specified investment

	Minimum Credit Criteria	Use	Maximum investments	Maximum maturity period
Term deposits – local authorities with maturities greater than 1 year	--	In-house	£60m	5 yrs
Term deposits – banks and building societies with maturities greater than 1 year	Colour band Purple	In-house	£60m	5 yrs
Certificates of deposit issued by banks and building societies with maturities greater than 1 year	Colour band Purple	In-house	£60m	5 yrs
Certificates of deposit issued by banks and building societies with maturities greater than 1 year	Short-term F1, Long-term A- (Fitch or equivalent)	Fund Managers	£60m	5 yrs
Collateralised deposits	UK sovereign rating	In-house	£60m	5 yrs
UK Government Gilts with maturities greater than 1 year	UK sovereign rating	In-house and Fund Managers	£60m	5 yrs
Bonds issued by multilateral development banks with maturities greater than 1 year	AA or Government backed	In-house and Fund Managers	£60m	5 yrs
Collective Investment Schemes structured as Open-Ended Investment Companies (OEICs)				
Property Funds	Organisations assessed as having “high credit quality”	In-house after consultation with Treasury Management Advisor	£60m	10 yrs

APPENDIX C

APPROVED LENDING LIST 2025/26

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	90.0	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	80.0	6 months	-	-
Barclays Bank PLC (NRFB)	GBR	90.0	100 days	-	-
Barclays Bank UK PLC (RFB)	GBR		6 months		
Bank of Scotland PLC (RFB)	GBR	80.0	6 months	-	-
Lloyds Bank PLC (RFB)	GBR				
Lloyds Bank Corporate Markets PLC (NRFB)	GBR				
Goldman Sachs International Bank	GBR	80.0	6 months	-	-
Sumitomo Mitsui	GBR	80.0	6 months	-	-
Standard Chartered Bank	GBR	80.0	6 months	-	-
Handelsbanken	GBR	80.0	365 days	-	-
Nationwide Building Society	GBR	40.0	6 months	-	-
Leeds Building Society	GBR	40.0	3 months	-	-
Coventry Building Society	GBR	40.0	6 months	-	-
High Quality Foreign Banks					
National Australia Bank	AUS	40.0	365 days	-	-
Credit Industriel et Commercial	FRA	40.0	365 days	-	-
Landesbank Hessen-Thuringen Girozentrale (Helaba)	GER	40.0	365 days	-	-
DBS (Singapore)	SING	40.0	365 days	-	-
Bayerische Landesbank	GER	40.0	365 days	-	-
National Bank of Canada	CAN	40.0	6 months	-	-
Local Authorities					
County / Unitary / Metropolitan / District Councils		30.0	365 days	5.0	5 years
Police / Fire Authorities		30.0	365 days	5.0	5 years
National Park Authorities		30.0	365 days	5.0	5 years
Other Deposit Takers					
Money Market Funds		40.0	n/a liquid	-	-
Property Funds		5.0	365 days	5.0	10 years
UK Debt Management Account		150.0	365 days	-	-

* Based on data 30 September 2024

APPROVED SOURCES OF LONG TERM AND SHORT TERM BORROWING

The approved sources and types of funding are shown below.

On Balance Sheet	Fixed	Variable
PWLB	●	●
Municipal bond agency	●	●
Local authorities	●	●
Banks	●	●
Pension Funds	●	●
Insurance companies	●	●
UK Infrastructure Bank	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Market (LOBOs)	●	●
Stock issues	●	●
Local temporary	●	●
Local Bonds	●	
Local authority bills	●	●
Overdraft		●
Negotiable Bonds	●	●
Internal (capital receipts & revenue balances)	●	●
Commercial Paper	●	
Medium Term Notes	●	
Finance leases	●	●

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 and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Link credit worthiness service.

Based on lowest available rating

AAA

- Australia
- Denmark
- Germany
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Canada
- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- Qatar

AA-

- Belgium
- France
- U.K.

TREASURY MANAGEMENT SCHEME OF DELEGATION

(i) Council

- receiving and reviewing reports on treasury management policies, practices and activities.
- approval of annual strategy.

(ii) Executive

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices.
- budget consideration and approval.
- approval of the division of responsibilities.
- receiving and reviewing regular monitoring reports and acting on recommendations.
- approving the selection of external service providers and agreeing terms of appointment.

(iii) Audit Committee

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER

The 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 Resources, who will act in accordance with the Council's TMPs, as well as CIPFA's Standard of Professional Practice on Treasury Management. In addition, the Council delegates responsibility for the execution and administration of Treasury Management decisions to the Corporate Director Resources, including any borrowing and debt rescheduling.

The S151 (responsible) officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance.
- submitting regular treasury management policy reports.
- submitting budgets and budgets variations.
- receiving and reviewing management information 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, with a long-term timeframe
- 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, to carry out the above

- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following: -
 - *Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios.*
 - *Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments.*
 - *Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making.*
 - *Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken.*
 - *Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.*

CAPITAL STRATEGY

1.0 INTRODUCTION

- 1.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) in 2021 revised the Prudential Code and Treasury Management Code which require local authorities to produce a Capital Strategy to demonstrate that capital expenditure and investment decisions contribute to the delivery of North Yorkshire Council's plans and provisions of services whilst taking account of stewardship, value for money, prudence, sustainability, proportionality and affordability. This requirement was first introduced in 2018/19.
- 1.2 The purpose of the Capital Strategy is to set out how the Council proposes to deploy its capital resources effectively to achieve its corporate and service objectives. The Capital Strategy takes into account other relevant Council strategies and, policies as well as the views of partners and interested parties with whom the Council is involved. The resources which are forecast to be available to fund capital investment and the effect of that investment on the Council's revenue budget are also considered. The Capital Strategy will serve as a useful point of reference when determining or reviewing the Council's Capital Five Year Spending Plan (known as the Capital Plan).
- 1.3 **Scope and Reporting** - The Council has chosen to report the Capital Strategy separately from the Treasury Management Strategy Statement (TMSS). The Council will report treasury investments through the TMSS only and non-treasury investments will be reported through the Capital Strategy. This allows the core treasury investment reporting to focus on security, liquidity and yield principles, and the non-treasury investments, both service and commercial, to concentrate on capital expenditure in relation to assets.
- 1.4 **Our Vision** - We want to build on North Yorkshire's natural capital, strong local economy and resilient communities, to improve the way local services are delivered and support a good quality of life for all.

The Council is committed to seeking a better, fairer future for everyone, keeping services local and going even further. With more locally based staff and more local access points to Council services the community is provided with a bigger say in how these are delivered.

Along with savings and efficiencies, NYC provides an opportunity to apply our considerable combined asset base to facilitate local economic growth and regeneration and drive improved outcomes for residents, businesses and visitors to our area.

2.0 KEY AMBITIONS, OBJECTIVES AND PRIORITIES

- 2.1 The Council's ambitions, objectives and priorities are shown within the Council Plan the cornerstone of our policy framework. It provides the basis for all that we do and sets out the principles, priorities and ambitions for the Council and drives the many other plans and strategies including the Capital Strategy that supports informed decision making including

establishing the need for capital investment and the required outcomes from that investment.

2.2 The Capital Strategy is key to support long term investment decision enabling the delivery of the Council's Ambition. It is a key strategy document and forms part of the Council's revenue, capital, balance sheet and reserves planning. It provides:

- A long-term view of capital expenditure plans and any financial risks to which the Council is exposed;
- Ensuring due regard to the long-term financing, affordability implications, potential risks and the implications for future financial sustainability.
- A clear overview of the Council's asset management planning arrangements, prioritisation process and monitoring.

3.0 EXTERNAL FACTORS AND PARTNER INFLUENCES

3.1 The Council's capital investment plans are influenced by a number of external parties and factors: central government and its agencies, legislation requirements for capital works, partner organisations, businesses, developers and by the needs and views of other interested parties, particularly those of the residents

3.2 **Government policy and funding** – The Government's focus on devolution in the UK and its view for "Strategic Authorities" in local government regions, as outlined in the 16th December 2024 Local Government White Paper, with the aim to unlock greater funding and for York and North Yorkshire, and greater powers to lead on delivering outcomes

3.3 **Legislation and guidance** - In 2004, local authorities were provided with the flexibility to make their own capital investment decisions. Legislation, guidance and professional codes of practice were introduced to support decision making and ensure investment and borrowing is prudent, sustainable and affordable. The Council has complied with these principles since their introduction and subsequent updates. The Prudential Code and Treasury Management Code were revised in December 2021 primarily in response to concerns regarding commercial investment undertaken solely for financial yield.

- Updated and additional prudential indicators, monitoring, reporting as well as creation of Investment Management Practices for Service and Commercial investments.
- Confirmation of approach to 'Proportionality' and risk to service delivery where borrowing is undertaken primarily to generate a financial return.
- Setting out an approach for the inclusion of Environmental, Social and Governance issues in developing capital investment.
- Reviewing existing commercial or service investments to divest where appropriate.
- A Council must not borrow to invest primarily for financial return applies with immediate effect, with the loss of borrowing ability from the PWLB being an immediate consequence.

3.4 Local stakeholders - The Council works with a wide range of partners from the public, private, voluntary and community sectors, all of which have an influence over its spending

priorities. Relationships with partners, including those concerning capital matters, will be governed by the Council's Local Code of Corporate Governance and the Partnership Governance guidance.

Wherever possible the Council will seek to work in partnership with others to deliver its capital investment programme in order to provide facilities which meet its own and partners' needs. When working with the private sector, the objective will be to maximise the benefits to the Council and the community from any projects, both in terms of outputs and in relation to obtaining funding for the project.

The Council has strong partnership links with the York and North Yorkshire mayoral Combined Authority

The Council is also joint shareholders in Yorwaste (waste management company) and partners in the public private partnership of the Allerton Park Waste Recovery Plant.

4.0 INTERNAL STRATEGIC INFLUENCES

4.1 The Council's capital investment plans are influenced by a number of factors: the corporate ambitions within the Council Plan, existing commitments on revenue and funding resources, other Council policies, strategies and plans that comply with financial regulations and legislation.

4.2 **Council priorities** - The Council Plan has five corporate ambitions which will guide the development of the Capital Five Year Spending Plan. Capital investment expenditure including non-treasury investment projects are in line with these overall objectives as well as individual service aims. The Councils ambitions for North Yorkshire are:

Place and Environment

- A clean, environmentally sustainable and attractive place to live, work and visit
- A well connected and planned place with good transport links and digital connectivity
- Communities are supported and work together to improve their local area
- Good quality, affordable and sustainable housing that meets the needs of our communities

Economy

- Economically sustainable growth that enables people and places to prosper
- Culture, heritage, arts and sustainable tourism all play their part in the economic growth of the county
- New and existing businesses can thrive and grow
- North Yorkshire has a high profile, is influential nationally and receives its fair share of resources

Health and Wellbeing

- People are supported to have a good quality of life and enjoy active and healthy lifestyles
- Reduced variations in health through tackling the root causes of inequality

- In times of hardship, support is provided to those that need it most
- People can access good public health services and social care across our different communities

People

- People are free from harm and feel safe and protected
- People can achieve their full potential through lifelong education and learning
- Vulnerable people are supported by strengthening families or other appropriate networks
- People have control and choice in relation to their independence and social care support

Organisation

- Good quality, value for money services that are customer focused and accessible to all
- A well-led and managed, financially sustainable and forward- thinking council
- A diverse and inclusive council, where employees are supported and valued
- A carbon neutral council

4.3 **Other Council strategies and plans driving investment** - Capital Schemes must comply with other Council policies, strategies and, as well as contract procedure rules, financial regulations and with legislation, such as the Disability Discrimination Act. Important linking documents will include:

- Council's Constitution including Contract and Financial Procedure Rules
- Council Plan
- Medium Term Financial Strategy
- Capital Plan
- Treasury Management Strategy Statement
- Individual Service Plans

5.0 CAPITAL INVESTMENT PLAN AND PLANNING PROCESS

5.1 **Capital expenditure plans** - The Council's strategies and plans support the need for capital investment to enable required outcomes. The Council has a responsibility to apply an affordable, prudent and sustainable approach to that investment, as set out in the Prudential Code and therefore uses the prioritisation and planning process to manage this as described above. A summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of the budget are integral to the capital strategy.

Capital expenditure	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Children and Young People's Service	22,105	38,203	26,611	11,396	8,999
Health and Adult Services	112	647	5,710	15,000	15,000
Resources	17,513	16,641	25,814	4,957	660
Community Development	41,159	35,447	51,387	18,959	15,559
Environment	75,559	113,136	153,589	14,514	185
Non-HRA	156,448	204,074	263,111	64,826	40,403
HRA	21,767	28,048	64,270	61,965	66,946
Total	178,215	232,122	327,381	126,791	107,348

5.2 **Capital expenditure in non-treasury investments** can be for a service or a commercial purpose. To meet service or Council obligations capital investment could be in the form of loans or equity provided to external bodies, Council subsidiaries or joint ventures. In order to retain access to borrowing from the PWLB the Council is required to certify the capitals plans do not include expenditure on new non-treasury commercial investments primarily for financial return. However, where the capital spending decision is primarily related to the function of the Council and any financial returns are incidental then access is retained.

The Council will annually evaluate whether any of the commercial investments should be sold to release funds to finance new capital expenditure or refinance maturing debt. The Council's Capital Plans do not include any estimates to purchase any treasury commercial assets primarily for yield.

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

All alternative investment activities are subject to approval in accordance with the Council's governance framework for decision making and 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 in

place. The Commercial Investment Board has been established to ensure robust due diligence in order to make recommendations for implementation.

The Council recognises that achieving its capital ambitions will require consideration of alternative delivery structures and of all forms of funding including additional borrowing. Financial austerity has had a significant impact on affordability, however capital investment funded by borrowing will be undertaken in priority areas to meet capital ambitions if required, subject to at all times clearly understanding how the affordability of such expenditure can be managed over the longer term supported by a robust capital planning process, due diligence, business cases, risk management and monitoring.

5.3 Available Resources – The Council has several funding streams available to support capital investment. The funding of the five-year capital investment programme is detailed in the Capital spending plan which highlights unallocated funding that might become available.

The Council policies in relation to financing capital expenditure and investment are covered in this section and are listed in the table below:

<p>External funding</p>	<ul style="list-style-type: none"> • Services should seek to maximise external funding wherever possible to support capital schemes. This can be in the form of grants and contributions from outside bodies including central government. However, services will be expected to underwrite any cost overruns on externally funded schemes. If services bid for external funding for schemes and costs exceed the available funding, then services will be expected to fund any shortfall from existing resources (either revenue or capital). • Prior to submitting bids for grant funding, an assessment of the risk of a contract price increase, associated with market conditions or abnormal building plan demands attached to some grants, must be completed to estimate the likelihood of additional funding being needed • In respect of match funding bids then the relevant service must fully identify the necessary match funding resources from within existing service budgets prior to submitting any bid for funding
<p>Capital receipts</p>	<ul style="list-style-type: none"> • A capital receipt is an amount of money received from the sale of an asset. It cannot be spent on revenue items. • Any request to earmark a capital receipt to fund a specific scheme will be identified and considered through the capital board structure. • Capital Receipts Group review property disposal decisions resulting from the Council’s property governance arrangements. Any decisions in relation to property disposal are considered in line with aims and objectives of the Council Plan and Asset Management Strategy.

	<ul style="list-style-type: none"> • The general policy is that any capital receipts are pooled and used to finance future capital expenditure and investment according to priorities, although they may be used to repay outstanding debt on assets financed from borrowing, as permitted by the regulations.
Revenue and reserve funding	<ul style="list-style-type: none"> • Services may use their revenue budgets reserves to fund capital expenditure. • Alongside specific earmarked reserves, the Council's 'Strategic Capacity' Reserve is the principal reserve for funding investments within the General Fund. Contributions to this reserve are considered as part of the annual refresh of the MTFS. For the Housing Revenue Account, the Major Repairs Reserve is available to support the HRA capital programme. • Directors in conjunction with the Corporate Director Resources (S151 Officer) will take an overview and decide the most appropriate way of funding capital expenditure through the Capital Board structure.
Prudential borrowing	<ul style="list-style-type: none"> • Local authorities can set their own borrowing levels based on their capital need and their ability to pay for the borrowing. The levels will be set by using the indicators and factors set out in the Prudential Code. The borrowing costs are not supported by the Government so services need to ensure they can fund the repayment costs. This borrowing may also be referred to as Prudential Borrowing. • Capital projects that cannot be funded from any other source can be funded from Prudential Borrowing. The costs of borrowing must be affordable and the borrowing repayment and interest charges on the loan must be included in the Council revenue budget; it must also be factored into the medium-term financial strategy accordingly. • The Corporate Director Resources (S151 Officer) will make an assessment of the overall prudence, affordability and sustainability of the total borrowing requested. The impact of this borrowing will be reported in the Treasury Management Strategy alongside the Prudential Indicators required by CIPFA's Prudential Code. • The Corporate Director Resources (S151 Officer) will also determine whether the borrowing should be from internal resources such as reserves or whether to enter into external borrowing
Leasing	<ul style="list-style-type: none"> • The Corporate Director Resources (S151 Officer) may enter into finance leasing agreements to fund capital expenditure on behalf of services. However, a full option appraisal and comparison of other funding sources must be made and the Corporate Director Resources (S151 Officer) must be certain that leasing provides the best value for money method of funding the scheme.

	<ul style="list-style-type: none"> Under the Prudential Code finance leasing agreements are counted against the overall borrowing levels when looking at the prudence of the Council's borrowing
Other long-term liabilities - PFI	<ul style="list-style-type: none"> The Corporate Director Resources (S151 Officer) may enter into PFI agreements on behalf of services. These will be considered following due diligence over the life of the asset, balancing the financial and non-financial benefits against the risks compared to the Council owning and delivering such assets and services itself. The Corporate Director Resources (S151 Officer) must be certain that the PFI arrangement provides the best value for money method of delivering the scheme Under the Prudential Code PFI obligations are counted against the overall borrowing levels when looking at the prudence of the Council's borrowing.

5.4 **Borrowing and the CFR** – where resources are unavailable to fund capital expenditure, borrowing will be used. This will increase what is termed the Council's Capital Financing Requirement (CFR) which is the Council's underlying need to borrow. The Council is required to make a prudent provision for the repayment of historic capital expenditure from its revenue budget in line with its agreed Minimum Revenue Provision (MRP) policy. This reduces the CFR and the prudent provision set aside is used to repay debt. The calculation of the CFR summarised in the diagram below results in the amount the Council will need to borrow:

Movement	Opening CFR
+	Capital expenditure incurred in year
-	Grants, contributions, reserves and receipts used for capital expenditure
-	Prudent Minimum Revenue Provision and Voluntary Provision
=	Closing CFR

The amount of borrowing a Council can take is determined by what the Council can afford, along with ensuring it is prudent and sustainable. In accordance with the Prudential Code, the Council will only make capital investments, which increase the CFR, for a prudent purpose where this directly and primarily relates to the functions of the Council. Affordability and prudence are assessed and controlled by the prudential indicators which are recorded in the TMSS and described below in the Assessing affordability section.

5.5 **Assessing affordability** – the revenue cost implications of Capital investment undertaken historically and the proposed Capital Plan form an integral part of the Council's revenue budget and Medium-Term Financial Plan. The revenue budget impact of capital schemes for Council Tax and Rent payers include:

- The costs of operating/maintaining new assets
- The capital financing costs of servicing any borrowing required to pay for investment (interest and the Council's approach to making prudent provision for repayment of capital investment paid for by borrowing – MRP)

- The revenue costs of preparing and delivering projects
- Abortive costs required to be charged to revenue budgets if schemes do not proceed.

Some or all of the costs of investment may be offset by financial and non-financial benefits such as income, cost avoidance and importantly improved outcomes for residents. Where capital investment has been undertaken by borrowing, the Council is required to spread the cost of that investment over future years' revenue budgets. This is in accordance with its MRP Policy for the prudent repayment of capital expenditure which is approved as part of the budget proposals each year.

5.6 Revenue implications - The revenue costs associated with capital schemes need to be identified and included within the revenue budget and the Medium-Term Financial Plan. For example, a housing development project is likely to have revenue budget implications e.g. additional street lighting, waste disposal, schooling provision or other Council services. It is recognised that the Council cannot afford to do everything. However where revenue resources are deemed available to increase the level of Council borrowing capital investment will be considered. The Council's approach to affordability of its capital financing budgets in the medium term is as follows:

- General Fund – additional investment funded by borrowing over the medium term to be minimised unless approved in line with the prioritisation and evaluation criteria as described above.
- Housing Revenue Account – increasing over the medium term primarily as a result of implementing the Council's ambition target of new affordable housing. Future rent policy, pressures and a robust approach to ensuring viability of new developments will be key to affordability.
- Strategic and major development projects – On a case-by-case basis subject to approved business cases and due diligence including the long-term capital financing costs.

5.7 Affordability indicators - Prudential and treasury indicators to manage capital investments take a longer-term view of affordability, prudence and sustainability and are included in the TMSS at the start of every financial year. Prudential Indicators are used to assess affordability, along with other treasury management specific indicators and are approved within the TMSS and monitored on a quarterly basis in the Quarterly Performance Monitoring and Budget report to Executive and Council. These are listed below:

Financing costs and net revenue stream

This is a prudential indicator for affordability showing the percentage of the Council's revenue budget that is committed to capital financing costs and is required to be shown for the General Fund and the HRA separately. For the General Fund, the net revenue stream is the amount to be met from non-specific Government grants and Council Tax, whilst for the HRA it is the amount to be met from rent payers and service charges.

Estimates of capital expenditure

This is a prudential indicator for prudence showing the previous year actual and estimates of the total of capital expenditure planned to be incurred during the forthcoming financial year and the following two financial years.

Estimates of capital financing requirement (CFR)

This is a prudential indicator for prudence and shows the previous year actual and the forecast total capital financing requirement at the end of the forthcoming financial year and the following two years. The CFR is the amount of capital spending that has not yet been financed by capital receipts, capital grants or contributions from revenue income. It measures the underlying need to borrow for a capital purpose.

The operational boundary and the authorised limit

These are prudential indicators for prudence and focus setting an affordable limit for external debt. The operational boundary is the affordable debt limit and the authorised limit represents the legislative limit specified in Section 3 of the Local Government Act 2003. This is the set using the operational boundary plus an amount for unforeseen cashflow movement. The operational boundary is the limit for total gross external debt, separately identifying borrowing from other long-term liabilities. These are set for the forthcoming financial year and the following two financial years.

Gross debt to CFR

This is a prudential indicator for prudence and is used to show that external debt (i.e. borrowing for any purpose and other long-term liabilities) should not exceed the CFR (except in the short term) in the previous year plus the estimates of any increase in the CFR at the end of the current and next two financial years. This is to ensure that over the medium-term debt will only be for a capital purpose.

- 5.8 **Balance Sheet forward planning and the treasury management strategy** - where capital expenditure has been incurred without a resource to pay for it, i.e. when proposed to be paid for by supported or unsupported borrowing, this will increase what is termed the Council's CFR which is the Council's underlying need to borrow. The amount of borrowing required will be considered along with the Council's cashflow position.

The Council is typically cash rich in the short-term as revenue income is received before it is spent, this can include both working capital and reserves held on the balance sheet. The TMSS uses forecast cashflow information from the Reserves Strategy and the Capital Plan to make decisions around the amount, timing and duration of any new external borrowing required by the Council.

In terms of the Reserves Strategy, the Council uses a risk-assessed General Fund Reserve and effectively manages the balances of earmarked reserves over the longer term which is used to support the forward Balance Sheet projection. This projection provides a valuable foundation for the strategic financial planning of capital financing costs for the capital investment plan.

In terms of the Borrowing Strategy, the Council's main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting, and the Council therefore seeks to strike a balance between financing using the low-cost internal cash resources available in the short term and further long-term fixed rate loans where the future cost is known.

6.0 NON-TREASURY INVESTMENTS

6.1 **Non-treasury overview** - The CIPFA Treasury Management Code recognises that organisations may make investments for policy reasons outside of normal treasury management activity. These are non-treasury investments and include service and commercial investments.

Non-treasury management investment is expenditure made on the purchase of a capital asset and are investments for policy reasons outside normal treasury management activity. It is these non-treasury management investments which are the subject of this Capital Strategy.

Service investments - 'Investments for service purposes' are taken or held primarily and directly for the delivery of public services (including housing, regeneration and local infrastructure) or in support of joint working with others to deliver such services. Characteristics for service investments are:

- Service investments may or may not involve financial returns; however, obtaining those returns will not be the primary purpose of the investment.
- For local authorities, service investments will normally constitute capital expenditure, and it may be appropriate to borrow to finance service investments

An example of a service investment is when the Council lends money to local bodies or its subsidiaries to support local public services and stimulate local economic growth. In light of the wider benefits that can arise the Council is prepared to take more risk than with treasury investments. The main risk when making service loans is if the borrower is unable to repay the principal lent and/or the interest due.

It is important that the Council limits the financial risk, and assessment will be made of the risk of loss before entering into Service Loans by assessing the counterparty's resilience, the service users' needs that the loan is designed to help and how these needs will evolve over time. During the life of the loan any change in original assumptions will be monitored. The Council will use external advisors where appropriate.

Commercial investments - Investments taken or held primarily for financial return and are not linked to treasury management activity nor are directly part of delivering services. Characteristics for commercial investments are:

- non-financial assets such as commercial property is held primarily for financial return.
- For local authorities, investments of this type will usually constitute capital expenditure.
- 'Commercial' in this context refers to the purpose of the investment. Commercial investments are not taken to meet treasury management cash flow needs, and do not result from treasury risk management activity to prudently manage the risks, costs or income from existing or forecast debt or treasury investments. They are additional investments voluntarily taken primarily in order to generate net financial return or profit.

Details of the governance arrangements including the decision making and performance monitoring of non-treasury investments is covered in section 9 Corporate governance arrangements - Non-treasury investment activities.

The Council's Capital Plan has no expenditure on new non-treasury investments primarily for financial return.

6.2 **Existing non-treasury investments** – Based on prior year capital decisions the Council has a number of non-treasury investments. If there is a material financial interest in the shareholding or income generated during the year, then the balances as at 31 March 2024 are shown in the tables below.

Service non-treasury investments:

The Council has investments in third parties and in Council owned companies including loans. These holdings are non-treasury service investments that achieve the Council objectives, these existing holdings are shown below.

a) Company loans - The Council has made several loans in recent years to subsidiaries for the purpose of the delivery of Council services and objectives, the position below will continue to be monitored and reviewed:

Loans portfolio	Balance at 31 March 2024 £m	2023/24 net income generated £k	Interest rate %
Yorwaste (Subsidiary)	3.7	335	4.0%+base
Brierley Homes (Subsidiary)	16.0	1,336	6.0%+base
First North Law (Subsidiary)	0.1	6	4.0%+base
NY Highways (Subsidiary)	9.5	1,267	6.5%+base
Align Property Services (Subsidiary)	0.5	16	6.0%+base
Bracewell Housing Ltd (Subsidiary)	0.7	111	5.5%+base
Broadacres Housing Association loan	33.6	1,383	4.26%
Ryedale MAT	1.1	81	3.1% + base
Settle Pool	0.1	5	6.00%
TOTAL	65.2	4,540	

b) Company shares - The Council has the following investments in Council companies held for the purpose of the delivery of Council services and objectives:

Equity portfolio	Shareholding 31 March 2024 at cost £m
Align Property Partners Limited	0.50
Align Property Partners 2 Limited	0.00
Bracewell Housing Limited	0.00
Brierley Homes Limited	0.00
First North Law Limited	0.00
NY Highways Limited	0.50
NYNet Limited	0.00
NYNet 100 Limited	0.00
Veritau Limited	0.03
Yorwaste Limited	3.52
TOTAL	4.55

c) Alternative Property Investments – The Council has the following investments in in properties that are held for the purpose of the delivery of Council services and objectives

d) Commercial non-treasury investments - Commercial investments are the result of past acquisitions of land and buildings for a commercial purpose rather than for the supply of goods and services or for administrative purposes. They have been classified as commercial investment properties:

Commercial Property portfolio	Fair value at 31 March 2024 £m	Cost less debt repayment (MRP) at 31 March 2024 £m	2023/24 net income generated £k	2023/24 net income budgeted £m	return %
Scarborough Travelodge	15.3	14.8	1,014	884	6.84%
Total Alternative Property	15.3	14.8	1,014	884	6.84%
Bank Unit in Stafford Town Centre	0.7	0.9	50	50	5.75%
Co-op in Somercotes	1.3	1.5	92	76	6.13%
Total Commercial Property	2.0	2.4	142	126	5.99%
TOTAL	17.3	17.2	1,156	1,010	6.72%

The Council retains some existing holdings in non-treasury commercial property assets that are held to provide a financial return rather than deliver a Council service. These investments were taken prior to the revised 2021 Prudential Code and the Governments March 2020 PWLB legislation coming into being.

6.3 **Review of existing commercial investments** – The commercial property investment portfolio is reviewed annually against the risks to the budgeted income and the liquidity requirements of the Council.

6.4 **Future non-treasury investments** - The Council has the following service investments within the Capital Plan where the primary purpose of these investments is the delivery of the Council's stated service objectives:

Loans portfolio	Balance outstanding at 31 March 2024 £m	Further loans included in Capital Plan £m
NYnet (Subsidiary)	0.0	0.0
Align Property Partners Limited (Subsidiary)	0.5	0.0
Yorwaste – Loan 1 (Subsidiary)	3.7	0.0
Yorwaste – Loan 2 (Subsidiary)	0.0	0.0
Brierley Homes (Subsidiary)	16.0	9.2
First North Law (Subsidiary)	0.1	0.2
NY Highways (Subsidiary)	9.5	0.0
Bracewell Housing Ltd (Subsidiary)	0.7	9.3
Broadacres Housing Association loan	33.6	0.0
Ryedale MAT	1.1	0.0
Settle Pool	0.1	0.0
TOTAL	65.2	18.7

7.0 RISK MANAGEMENT AND MONITORING

7.1 **Risk management overview** - Clear criteria for both investment decisions and the ongoing risk management of the non-treasury investment portfolios is vital not only for the risks of individual investments but also the cumulative impact of all the investments made by the Council and the interaction of individual risks.

Limits on cumulative and individual non-treasury investments – The Commercial Investment Board was set up to monitor and provide due diligence on all North Yorkshire County Council non-treasury investments and it is envisaged that the Board will continue under the new North Yorkshire Council. The Board has delegated authority to approve individual investments up to a limit of £1.5m per investment and up to a total of £10m in any one financial year. Investments in excess of this will be submitted to the Executive for approval.

7.2 The Governance arrangements in section 9 below detail the process and procedures for investment decision and the following paragraphs on risk assessments, risk appetite and the indicators to monitor risk explain the management of the non-treasury investments.

7.3 **Risk assessment** - Risk is the threat that an event or action will adversely affect the Council's ability to achieve its objectives and to execute its strategies successfully. Risk management is the process of identifying risks, evaluating their potential consequences and determining the most effective methods of managing them and/or responding to them. It is both a means of

minimising the costs and disruption to the organisation caused by undesired events and ensuring that staff understand and appreciate the element of risk in all their activities.

The aim of risk management is to reduce the frequency of adverse risk events occurring (where possible), minimise the severity of their consequences if they do occur, or to consider whether risk can be transferred to other parties.

7.4 **Due diligence** - The Council recognises that the Capital Investment plans may increase in scale and ambition following the North Yorkshire re-organisation and therefore sophisticated and robust governance and assurance measures are in place to ensure delivery. To support this the Council has developed and continually refines a delivery assurance framework.

For capital investments the appropriate level of due diligence is undertaken with the extent and depth reflecting the level of additional risk being considered. Due diligence will cover a number of areas such as legal, treasury, accounting and technical implications and the process and procedures for this work will include:

- effective scrutiny of proposed capital investments by the relevant committee
- identification of the risk to both the capital invested and the returns
- understanding the extent and nature of any external underwriting of those risks
- the potential impact on the financial sustainability of the Council if those risks come to fruition
- understanding the powers under which the investment is made and changes to relevant laws and regulations factored into any capital bidding and programme monitoring processes
- identification of the assets being held for security against debt and any prior charges on those assets
- further independent and expert advice being sought where necessary

An assessment of risk is therefore built into every capital project and major risks recorded in the Corporate Risk Register to manage and monitor the Council's risk appetite.

7.5 **Risk appetite** - To manage risk effectively, the risks associated with each capital project need to be systematically identified, analysed, influenced and monitored. It is important to identify the appetite for risk by each scheme as well as for the capital programme as a whole.

7.6 **Indicators and limits** - In determining the Council's risk appetite in respect of non-treasury investments, for commercial or service purposes, including financial assets and property investments, indicators and limits can be used to establish the parameters of an acceptable level of risk of which can then be managed and monitored. This can focus on the impact of the downside risk so that the overall sustainability of the Council is considered.

The CIPFA Prudential Code, Treasury Management Code and the statutory investment guidance in England (issued by the former Ministry of Housing, Communities and Local Government) requires indicators and limits to be set, along with risk assessments to be made in order to assist the management and monitoring of non-treasury investments on a regular basis. Non-treasury investment indicator included in this capital strategy is detailed below:

i) **Ratio of net income from non-treasury investments to net revenue stream**

This prudential indicator for affordability shows the extent to which the revenue budget is reliant on budgeted net income from non-treasury commercial and service investments and is an important monitoring tool in the capital strategy. The level of anticipated income is not deemed a risk to the financial sustainability of the Council.

	2023/24 Actual %	2024/25 Estimate %	2025/26 Estimate %	2026/27 Estimate %	2027/28 Estimate %
Net income from service investments to net revenue stream	0.82%	0.91%	0.75%	0.65%	0.50%
Net income from commercial to net revenue stream	0.02%	0.02%	0.02%	0.02%	0.02%
Net income from non-treasury investments to net revenue stream	0.84%	0.93%	0.77%	0.67%	0.52%

8.0 GOVERNANCE

8.1 Consideration, approval and monitoring of the capital plan takes place as part of the Council's strategic planning timetable and is detailed below.

Capital budget setting process – Part of the Capital Strategy importantly notes that consideration is given to the capital budget setting process i.e. the approval of the Capital Plan. The Capital Plan sets out the Council's longer term capital investment plans. These plans support the Council's strategic and service objectives by maximising the assets and infrastructure necessary to support service delivery whilst minimising the impact on the revenue budget.

8.2 The Capital Plan must be approved by Council before the start of the financial year. The Council's Financial Procedure rules empower the Executive to modify the Capital Plan during the year by means of the Capital section of the quarterly performance monitoring reports or, if urgent changes are needed, ad hoc reports at other points in the reporting calendar.

8.3 The 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.

8.4 The Corporate Director 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 – Resources, for submission to the Executive. The Capital Plan should identify planned expenditure, and funding, at proposed individual scheme or programme level

- 8.5 This process is designed to ensure the capital schemes contribute to service delivery and where in some cases a return on the investment is generated, this can be financial and/or non-financial.
- 8.6 The Corporate Director – Resources is responsible for preparing an overall Capital Plan for consideration by the Executive, and approval by the Council, the funding of which shall be compatible at all times with the Treasury Management Policy Statement of the Council. Individual schemes shall only be included in the Capital Plan following a project appraisal process.
- 8.7 In Year Opportunities can be put forward for entry into the capital programme in a managed way either when the capital programme is reviewed each quarter and is reported to the Executive and Council or outside of this timetable as a separate Executive report to seek approval at any other meeting in the Executive cycle.
- 8.8 Other long-term liabilities – The Council’s Financial Procedure Rules and the Asset Management Planning Framework provide a framework for the appraisal and approval of schemes including where this is delivered by means of PFI contracts or leasing arrangements. This framework includes the ongoing monitoring and risk management of long-term liabilities taken to deliver operational services, these include PFI contracts, leasing agreements or arrangements that require financial guarantees, including those given in respect of subsidiaries or joint ventures. PFI contracts and lease obligations are like borrowing as they have an ongoing revenue budget commitment. These will be considered following due diligence over the life of the asset, comparing the financial and non-financial benefits and risks compared to the Council owning and delivering such assets and services itself.
- 8.9 Where the Council has issued financial guarantees, it will periodically reassess the probability of financial guarantees being called upon and include this in the risk management reporting with mitigating actions as appropriate.

9.0 CORPORATE GOVERNANCE ARRANGEMENTS – NON-TREASURY INVESTMENT ACTIVITIES

- 9.1 Non-treasury investments can be considered where the primary purpose of the expenditure is for service delivery including projects for economic development / regeneration, but these investments do not always give priority to security and liquidity over yield (like treasury investment do) so appropriate governance is required.
- 9.2 Given the technical nature of potential non-treasury investments and strong linkages to the Council’s Treasury Management function, appropriate governance and decision making arrangements are needed to ensure robust due diligence and scrutiny in order to make recommendations for implementation. As a result, a Commercial Investment Board has been established. All non-treasury investments will be subject to consideration and where necessary recommendations of the Commercial Investment Board.
- 9.3 The Commercial Investment Board is not a constituted body and therefore does not have formal decision making powers. However, it is the chief means of identifying, reviewing, providing scrutiny 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 – Resources and further decisions as made by the Executive.

9.4 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 Resources
- Corporate Director of Community Development
- Assistant Director Resources
- Assistant Director Economic Development, Regeneration, Tourism and Skills

9.5 All Executive reports will ensure that the Council has the appropriate legal powers to undertake such non-treasury investments and will also include the 'proportionality of non-treasury investments' so that the Council does not undertake a level of investing which exposes it to an excessive level of risk compared to its financial resources.

9.6 Monitoring of all investments will be included in the quarterly capital and treasury management monitoring reports which are received by the Executive.

9.7 The Corporate Director – Resources (S151 Officer) - will report explicitly on the affordability and risk associated with the Capital Strategy as detailed below and, where appropriate, will have access to specialist advice to enable conclusions to be reached.

10.0 SKILLS AND TRAINING

10.1 **Skills and training** - All capital investment approvals are subject to robust consideration and challenge by members and officers from across the Council with extensive Local Government experience from varying professional backgrounds.

10.2 The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. The Council requires finance staff to maintain relevant professional qualifications including CIPFA and AAT. All officers attend courses on an ongoing basis to keep abreast of new developments and skills to ensure their Continuous Professional Development. Members are also offered training regularly to ensure they have up to date skills and are able to make capital and treasury decisions.

10.3 Where Council staff do not have the specialist knowledge and skills required, use is made of external advisers and consultants that are experts in their field. The Council currently employs Link Group as treasury management advisers. This approach is more cost effective than employing such staff whilst ensuring that the Council has access to knowledge and skills commensurate with its risk appetite.