

Date: 25 March 2008

Report: TREASURY MANAGEMENT – REPORT OF THE TREASURER

Purpose of the Report

1. To seek approval of the Treasury Management Report for 2008/09 as prepared by the Treasurer and attached as an annex to this report.

Strategic Planning Framework

2. The information and recommendations contained in this report are consistent with the Authority's statutory purposes and its approved strategic planning framework, and in particular its objective 'to manage all aspects of the Authority's business so as to make the most effective use of our resources' (Best Value Performance Plan).

Treasury Management

3. Prior to the commencement of the financial year the Treasurer to the Authority prepares an Annual report on Treasury Management in compliance with the CIPFA Code of Practice on Treasury Management in the Public Services and provisions of the Local Government Act 2003. A copy of the report for the 2008/09 financial year is attached as an annex to this report.

RECOMMENDATIONS

4. That members approve the recommendations contained in the Report of the Treasurer.

**Irene Brannon
Senior Finance Officer**

7 March 2008

Background documents: CIPFA Code of Practice on Treasury Management in the Public Services (CIPFA 2001).
North Yorkshire County Council Documents : Treasury Management Practices, Annual Investment Strategy and Approved Lending List
YDNPA – Treasury Management Policy Statement 2005

YORKSHIRE DALES NATIONAL PARK AUTHORITY

25 March 2008

TREASURY MANAGEMENT

Report of the TREASURER

1.0 PURPOSE

- 1.1 To approve an updated Annual Treasury Management Strategy for the financial year 2008/09.
- 1.2 To approve the details on the Annual Investment Strategy 2008/09.

2.0 BACKGROUND

- 2.1 The Authority is required to adopt certain procedures in relation to Treasury Management.
- 2.2 The Local Government Act 2003 requires the Authority to 'have regard' to the
 - **CIPFA Code of Practice on Treasury Management in the Public Services** which was substantially revised in 2001 and adopted by the Authority on 25 March 2003
 - **CIPFA Prudential Code for Capital Finance in Local Authorities** adopted by the Authority on 14 March 2005.
- 2.3 Another implication of the Local Government Act 2003 is that the Authority is now required to set out its **Annual Treasury Management Strategy (ATMS)** and to prepare an **Annual Investment Strategy** (in accordance with ODPM guidance issued in March 2004) before the start of each financial year.
- 2.4 This report asks the Authority to approve:
 - (a) the Annual Treasury Management Strategy for 2008/09
 - (b) the guidance from North Yorkshire County Council on an Annual Investment Strategy for the Authority.
- 2.5 Execution of the external Treasury Management arrangements of the Authority is currently provided under contract by North Yorkshire County Council. The County Council is required (under this contract) to comply with the terms of this Authority's approved Treasury Management Policy Statement and Annual Treasury Management Strategy.

3.0 CIPFA CODE OF PRACTICE ON TREASURY MANAGEMENT IN THE PUBLIC SERVICES

- 3.1 The adoption of the 2001 Code of Practice involved agreeing four standard clauses which have been incorporated into the Authority's Financial Regulation 13 (regarding Treasury Management). These four clauses are currently as follows:-

- (i) the Authority adopts the key recommendation of CIPFA's Treasury Management in the Public Services: Code of Practice (the Code) 2001 as described in Section 4 of that Code.
 - (ii) accordingly, the Authority will create and maintain, as the cornerstones for effective treasury management:-
 - (a) a **Treasury Management Policy Statement** (TMPS) stating the policies and objectives of its treasury management activities
 - (b) suitable **Treasury Management Practices** (TMPs) setting out the manner in which the Authority will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.
 - (iii) the Authority will be responsible for the implementation and monitoring of its treasury management policies, but delegates the execution and administration of treasury management decisions to the Chief Executive Officer (CEO) who will, under arrangements approved by the Treasurer, act in accordance with the authority's TMPS, associated TMPs as well as CIPFA's Standard of Professional Practice on Treasury Management. The CEO does not have the sole responsibility or authority in formulating a strategy for the control of the Authority's borrowing, capital expenditure or investments; any such strategy should be agreed with the Treasurer, and approved by the full Authority.
 - (iv) the Authority will receive reports on the treasury management policies, practices and activities including as a minimum, an annual strategy and plan in advance of the year, and an annual report after its close, in the form prescribed in the TMPs
- 3.2 In addition three further clauses are contained in Section 13 of the Financial Regulations. These are:-
- (i) all money in the possession of the Authority shall be under the control of the CEO acting in accordance with procedures approved by the Treasurer
 - (ii) the CEO shall, with the advice of the Treasurer, periodically review the Treasury Management Policy Statement and associated documentation and shall make recommendations accordingly to the Authority
 - (iii) notwithstanding the other regulations relating to Treasury Management, the specified named posts shall carry out certain responsibilities. (These are listed in Financial Regulation 13.7)
- 3.3 One of the above clauses (3.1(ii)(b)) requires the creation and maintenance of suitable Treasury Management Practices (TMPs) setting out the manner in which the Authority will seek to achieve those policies and objectives, and prescribing how it will manage those activities. The Code recommends 12 different TMPs.
- 3.4 As the Treasury Management activities of the Authority are carried out by North Yorkshire County Council, **the creation and maintenance of separate TMPs for this authority is not required.**
- 3.5 North Yorkshire County Council however has a full set of TMPs that govern their own Treasury Management activities. These can be made available for reference purposes to Members of the Authority, if required.

4.0 CIPFA PRUDENTIAL CODE FOR CAPITAL FINANCE IN LOCAL AUTHORITIES

- 4.1 The Authority must comply with the CIPFA Prudential Code on Capital Finance in Local Authorities from 1 April 2004 which impacts heavily on Treasury Management.
- 4.2 The framework of the new Prudential system is contained in the Local Government Act 2003 under which the Authority has a statutory duty to determine and keep under review how much it can afford to borrow. The Local Authorities (Capital Finance and Accounting) Regulations 2003 specifies the Prudential Code as the Code of Practice to which local authorities must have regard when setting and reviewing their affordable borrowing limit.
- 4.3 As a result this report should be read in conjunction with the report on 'Capital Finance and the Prudential Code' due to the interaction between the Prudential Indicators and the Treasury Management arrangements.

5.0 LOCAL AUTHORITY INVESTMENTS AND ANNUAL INVESTMENT STRATEGY

- 5.1 The Prudential Code and its regulatory framework provide a greater degree of financial freedom for local authorities. In terms of Treasury Management matters this refers to investments as well as borrowing.
- 5.2 Prior to the Prudential Code, local authority investments were governed by Regulations which gave prescriptive guidance as to which financial instruments could be used. In the interest of stewardship of public money only low risk and high liquidity products could be used (which in general should be for no longer than 364 days) on the principle that risk increases with the length of the deposit.
- 5.3 The new Capital Finance Regulations made under the 2003 Local Government Act, which incorporates the new Prudential Code system, do not cover investments and the Government has therefore issued separate Investment Guidance which authorities must now follow.
- 5.4 This Guidance was issued in March 2004 and replaces the previous prescriptive regime with a prudent but more flexible framework, which give authorities greater freedom of choice when investing surplus cash balances. The Guidance acknowledges the fact that local authorities recognise that a potentially higher return can be achieved by taking a higher degree of risk when investing surplus funds. As they already evaluate and manage many of these risks however (ie in terms of both credit rating and liquidity), this is not a great departure from previous practices used by local authorities.
- 5.5 Under Section 15 (1) (a) of the Local Government Act 2003, the Authority is required to have regard to guidance issued by the Secretary of State in respect of the investment of cash funds. This Guidance on Local Government Investments requires an **Annual Investment Strategy (AIS)** to be approved by Members.
- 5.6 In terms of an **Annual Investment Strategy** for the National Park, the current contractual arrangements with North Yorkshire County Council for the investment of surplus cash balances mean that the Authority can use the AIS adopted by the County Council on 20 February 2008. **As a result there is no need to adopt a separate document as part of the Annual Treasury Management report.**
- 5.7 It is however important that the Authority recognises the principles involved and that cash balances can now be invested for periods of longer than 364 days. Where these financial instruments are utilised, specialist advice will be taken from the County Council's Treasury Management Advisors.

5.8 **A copy of the County Council's current AIS is available to members on request.**

6.0 **ANNUAL TREASURY MANAGEMENT STRATEGY 2008/09**

One of the requirements of the 2001 CIPFA Code of Practice is that an annual Treasury Management Strategy is considered and approved for each financial year.

The proposed strategy is set out in appendix A and includes:

- the Treasury Limits in force which will limit the treasury risk and activities of the authority
- Prudential Indicators
- the Borrowing Requirement and Borrowing Limits
- Borrowing Policy
- prospects for interest rates
- the Borrowing Strategy
- Minimum Revenue Provision Policy
- changes to the PWLB Regulations
- Annual Investment Strategy

The Treasurer will report to the Authority, if and when necessary during the year, on any changes to this Annual Strategy arising from the use of operational leasing or any other innovative methods of funding.

7.0 **TREASURY MANAGEMENT POLICY STATEMENT (TMPS)**

7.1 The current Treasury Management Policy Statement (TMPS) was agreed and adopted by the authority on 25 March 2005 as part of the Treasury Management report for the current year. No material changes are required to the TMPS this year, an updated version is therefore not being submitted to members for approval.

7.2 **A copy of the full Policy Statement is available to Members on request.**

8.0 **APPROVED LENDING LIST**

8.1 The approved List of Organisations (counterparties) to which the Authority may make investments, together with the maximum sum at any time that can be placed with each, is outlined in the County Council's Treasury Management Practices and Treasury Management Strategy Statement, as covered by the contractual arrangements with the County Council.

8.2 Any changes to this list are made by the Treasurer under delegated powers and reported to the County Council's Executive.

8.3 Significant changes have been made to the Lending List of the County Council for the 08/09 Treasury Management and Investment Strategy. This revised lending list is detailed in **Schedule A to Appendix A** Treasury Management Strategy 2008/09.

9.0 RECOMMENDATIONS

9.1 That Members

- (i) Approve the Annual Treasury Management Strategy for 2008/09 as detailed in **Appendix A**
- (ii) Approve the use of the County Council's Annual Investment Strategy, as set out in **paragraph 5.6.**

JOHN MOORE
Treasurer

Finance and Central Services
County Hall
Northallerton
28 January 2008

YORKSHIRE DALES NATIONAL PARK AUTHORITY
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TREASURY MANAGEMENT STRATEGY STATEMENT 2008/09

1.0 INTRODUCTION

- 1.1 This Treasury Management Strategy statement details the expected activities of the Treasury function in the financial year 2008/09. Its production and submission to Members is a requirement of the Local Government Act 2003, the *CIPFA Treasury Management Code of Practice in the Public Sector and the CIPFA Prudential Code*. Its content and structure is in the format specified in the Authority's approved Treasury Management Policy Statement.
- 1.2 The suggested strategy for 2008/09 in respect of the following aspects of the treasury management function is based upon officer's views on interest rates, supplemented with market forecasts.

The strategy covers:-

- the Treasury Limits in force which will limit the treasury risk and activities of the authority (**paragraph 2**)
- Prudential Indicators (**paragraph 3**)
- the Borrowing Requirement and Borrowing Limits (**paragraph 4**)
- Borrowing Policy (**paragraph 5**)
- prospects for interest rates (**paragraph 6**)
- the Borrowing Strategy (**paragraph 7**)
- Minimum Revenue Provision Policy (**paragraph 8**)
- changes to the PWLB Regulations (**paragraph 9**)
- Annual Investment Strategy (**paragraph 10**)

2.0 TREASURY LIMITS FOR 2008/09 TO 2010/11

- 2.1 It is a statutory duty under Section 3 of the Local Government Act 2003 and supporting regulations for the authority to determine and keep under review how much it can afford to borrow. The amount so determined is termed **the Affordable Borrowing Limit**.
- 2.2 The Authority must have regard to the Prudential Code when setting the Affordable Borrowing Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits. In practice, it is equivalent to the Authorised Limit as defined for the Prudential Indicators (therefore see **paragraph 3** below).
- 2.3 Whilst termed an Affordable Borrowing Limit, the spending plans to be considered for inclusion incorporate financing by both external borrowing and other forms of liability such as credit arrangements. The Affordable Borrowing Limit has to be set on a rolling basis for the forthcoming financial year and two successive financial years.

3.0 PRUDENTIAL INDICATORS FOR 2008/09 TO 2010/11

- 3.1 The Capital Finance and the Prudential Code report incorporates a full set of Prudential Indicators up to 2010/11, as required by the CIPFA Prudential Code for Capital Finance in Local Authorities.
- 3.2 These Prudential Indicators include a number relating to external debt and treasury management that should also be incorporated into this Annual Treasury Management Strategy for 2008/09.
- 3.3 The following Prudential Indicators are relevant for the purposes of setting an integrated Annual Treasury Management Strategy. Additional details on these indicators can be found within the report elsewhere on the agenda.

(i) **Estimated ratio of capital financing costs to the net Revenue Budget**

2006/07 actual	0.00%
2007/08 probable	0.00%
2008/09 estimate	0.03%
2009/10 estimate	0.40%
2010/11 estimate	1.37%

(ii) **Capital Expenditure Actual and Forecasts**

	£k
2006/07 actual	70
2007/08 probable	70
2008/09 estimate	150
2009/10 estimate	650
2010/11 estimate	570

(iii) **Capital Financing Requirement (as at 31 March)**

	£k
31 March 2007 actual	0
31 March 2008 probable	0
31 March 2009 estimate	80
31 March 2010 estimate	727
31 March 2011 estimate	1,268

(iv) **Authorised limit for external debt**

	£k
2007/08	250
2008/09	330
2009/10	977
2010/11	1,518

(v) **Operational Boundary for external debt**

	£k
2007/08	0
2008/09	80
2009/10	727
2010/11	1,268

(vii) **Adoption of CIPFA Code of Practice for Treasury Management in the Public Services**

The Authority agreed to adopt this Code at its meeting on 25 March 2005.

(viii) **Interest Rate exposures**

Year	Upper Limit on fixed interest rate exposure	Upper Limit on variable interest rate exposure	Net position
2008/09	-2%	102%	100%
2009/10	-26%	126%	100%
2010/11	-57%	157%	100%

Further information regarding this table is included in the Capital Finance and Prudential Indicator report, elsewhere on this agenda.

In addition to the above upper limit on fixed and variable interest rate prudential indicator which is required by statute, a local indicator has also been set for the limits of borrowing and investments separately. This is detailed below:

Borrowing	%age of outstanding principal sums
Limits on fixed interest rate exposures	70 to 100
Limits on variable interest rate exposures	0 to 30
Investing	
Limits on fixed interest rate exposures	0 to 20
Limits on variable interest rate exposures	80 to 100

(ix) **Maturity Structure of borrowing**

The amount of projected borrowing maturing in each period as a percentage of total projected borrowing that is fixed rate.

	Lower Limit	Upper Limit
	%	%
under 12 months	0	100
12 months and within 24 months	0	100
24 months and within 5 years	0	100
5 years and within 10 years	0	100
10 years and above	0	100

(x) **Total principal sums invested for periods longer than 364 days**

A maximum of 20% of funds available for investment will be held in aggregate in "Non-Specified investments" over 364 days.

4.0 THE BORROWING REQUIREMENT AND BORROWING LIMITS

- 4.1 The **Operational Boundary** reflects an estimate of the most likely, prudent but not worst case scenario of external debt during the course of the financial year. The **Authorised Limit** is based on the same estimate as the **Operational Boundary** but allows sufficient headroom over this figure to allow for unusual cash movements.
- 4.2 The **Authorised Limit** therefore represents the maximum amount of external debt which the Authority agrees can be incurred at any time during the financial year and includes both capital and revenue requirements. It is not, however, expected that the Authority will have to borrow up to the limit agreed.
- 4.3 The agreed **Operational Boundary** and **Authorised Limit** for external debt up to 2010/11 are as follows:

Item	2007/08 probable £k	2008/09 estimate £k	2009/10 estimate £k	2010/11 estimate £k
Debt Outstanding at the start of the Year	0	0	80	727
+ External borrowing requirements	0	80	650	570
- 4% MRP charged to revenue	0	0	(3)	(29)
= Operational Boundary for year	0	80	727	1268
+ Provision to cover unusual cash movements	250	250	250	250
= Authorised Limit for year	250	330	977	1,518

5.0 BORROWING POLICY

- 5.1 The policy of the Authority is that if borrowing is required to finance capital expenditure, then loans will be sought from either the Public Works Loan Board (PWLB) or the money markets for periods up to 70 years which reflect the best possible value to the Authority and/or the life of the Authority's assets. Individual loans are also chosen depending on the perceived value of interest rates at the time of borrowing.
- 5.2 Since the authority currently has no debt, if borrowing was undertaken, it is likely it would be taken in the form of a PWLB loan at a fixed rate of interest. The authority's Treasury Management Adviser, consider if borrowing was undertaken from the money markets it should be limited to 30% of the total debt portfolio.
- 5.3 The Authority will look to borrow from the PWLB or money markets if necessary, at the most advantageous rate. The Treasurer will monitor this situation closely throughout the year to determine the most appropriate and advantageous borrowing.

6.0 PROSPECTS FOR INTEREST RATES

- 6.1 City forecasts for interest rates do as usual vary considerably with a current consensus view being as follows:

	Bank Rate %	5 year PWLB %	10 year PWLB %	25 year PWLB %	50 year PWLB %
Now	5.50	4.80	4.80	4.65	4.55
Q1 2008	5.25	4.70	4.70	4.60	4.50
Q2 2008	5.25	4.65	4.60	4.55	4.45
Q3 2008	5.00	4.55	4.55	4.55	4.45
Q4 2008	5.00	4.55	4.55	4.50	4.45
Q1 2009	5.00	4.60	4.55	4.55	4.45
Q2 2009	5.00	4.70	4.55	4.55	4.45
Q3 2009	5.00	4.75	4.60	4.60	4.50
Q4 2009	5.00	4.80	4.70	4.65	4.50
Q1 2010	5.00	4.80	4.75	4.70	4.55
Q2 2010	5.00	4.80	4.75	4.70	4.55
Q3 2010	5.00	4.85	4.80	4.70	4.55
Q4 2010	5.00	4.85	4.80	4.70	4.55
Q1 2011	5.00	4.85	4.80	4.75	4.60

6.2 The key economic forecasts, the impact of which are reflected in the above interest rates table, include:-

UK

- GDP growth has been strong during 2007, hitting 3.3% and is expected to cool from 3% overall in 2007 to 2% in 2008
- higher than expected immigration from Eastern Europe has underpinned strong growth and dampened wage inflation
- house prices started to drop towards the end of 2007 and this is expected to continue in 2008
- the combination of Bank Rate increases and consequential mortgage rates, short term mortgage fixes ending and being renewed at higher rates, food prices rising at their fastest rate since 1993 and petrol price increases, have all put consumer spending power under major pressure
- banks have also tightened their lending criteria since the Northern Rock crisis which will also dampen consumer expenditure via credit cards and on buying houses through obtaining mortgages
- Government expenditure will be held under a tight rein for the next few years, undermining one of the main props of strong growth during this decade
- the MPC is very concerned at the build up of inflationary pressures, especially the rise in oil prices and the consequent knock on effects on general prices. The price of UK manufactured goods has risen at their fastest rate in 16 year in November 2007 (4.5%). Food prices have also risen at their fastest rate for 14 years (6.6%) driven by strong demand from China and India. Consequently the MPC is going to be much more cautious about cutting rates in the face of these very visible

inflationary pressures. In addition, UK growth was still exceptionally strong in 2007, as has been the growth in the money supply

- the downward trend in Bank Rate is now expected to be faster than at first thought after the initial cut in December 2007 to 5.5% which showed an unanimous MPC vote for a cut and the consideration given to half a % cut. This demonstrated how concerned the MPC is at the potential impact of the credit crunch on the economics of the western world. However, the MPC's room for cutting rates is currently limited by concerns over inflationary pressures. If those pressures subside however there is further downward risk to the current forecast which currently suggests a 0.25% cut early in 2008, a further 0.25% cut in mid 2008 before Bank Rate stabilises at 5% for the next two years

International

- the US, UK and EU economies have all been on the upswing of the economic cycle during 2005 and 2006 and so interest rates were successively raised in order to cool their economies and to counter the build up of inflationary pressures
- the US is ahead of both the UK and EU in the business cycle and started on the downswing of the economic cycle during 2007. US rates peaked at 5.25% and was first cut in September by 0.5% to 4.75%. This was a response to the rapidly deteriorating prospects for the economy in the face of the downturn in the housing market, the sub prime mortgage crisis and the ensuing liquidity crisis which started in August 2007 and has subsequently resulted in banks making some major write offs of losses on debt instruments containing sub prime mortgages. Banks have also tightened their lending criteria which has hit hard those consumers with poor credit standing
- the US cut its rate again, to 4.5% in October 2007, to 4.25% in December and is expected to cut by another 0.25% to 0.75% by April 2008 to try to stimulate the economy and to ameliorate the extent of the downturn. However, the speed and extent of these cuts will be inhibited by inflationary pressures arising from oil prices, the falling dollar increasing the costs of imports, etc. The US could well be heading into stagflation in 2008 – a combination of inflation and a static economy. The economy could even tip into recession if the housing downturn becomes severe enough
- the major feature of the US economy is a steepening downturn in the housing market which is being undermined by an excess stock of unsold houses stoked by defaulting sub prime borrowers pushed into forced sales. Falling house prices will also undermine household wealth and so lead to an increase in savings (which fell while house prices were rising healthily) and so conversely will lead to a fall in consumer expenditure. Petrol prices have trebled since 2003 and, with similar increases in the price of home heating oil, this will also depress consumer spending with knock on effects on house building, employment etc
- the downturn in economic growth in the US in 2008 will depress world growth, (especially in the western economies), which will also suffer directly under the impact of high oil prices. However strong growth in China and India will partially counteract some of this negative pressure
- EU growth has been strong during 2006 and 2007 but will be caught by the general downturn in world growth in 2008

6.3 Based on the key economic forecasts referred to above the significant interest rate predictions are:

Bank Base Rate

- started on a downward trend from 5.75% to 5.5% in December 2007
- to be followed by further cuts in early 2008 to 5.25% and to 5% in mid 2008
- remain unchanged at 5% for the following two years
- there is a downside risk to this forecast if inflation concerns subside and so open the way for the MPC to be able to make further cuts in Bank Rate

PWLB rates

- the 50 year PWLB rate is expected to fall marginally from 4.50% in Q1 2008 to 4.45% in Q2 2008 before rising back again to 4.50% in Q3 2009, 4.55% in Q1 2010 and to 4.6% in Q1 2011
- the 25 year PWLB rate is expected to fall progressively from 4.65% to reach 4.5% in Q1 2008 and to then be on the rise from Q1 2009 to reach 4.7% in Q1 2010 and 4.75% in Q1 2011
- the 10 year PWLB rate is expected to fall from 4.7% in Q1 2008 to 4.55% in Q3 2008 and to then gradually rise from Q3 2009 to reach 4.8% in Q3 2010
- the 5 year PWLB rate is expected to fall from 4.7% in Q1 2008 to reach 4.55% in Q3 2008 and to then gradually rise starting in Q1 2009 to reach 4.85% in Q3 2010

7.0 THE BORROWING STRATEGY

- 7.1 Based on the prospects for interest rates outlined above, the Borrowing Strategy for 2008/09 will be to take advantages of the lowest borrowing rates towards the end of the financial year although attractive rates could be available at any time in the year when there is a dip down in rates.
- 7.2 Attention will be given to the new PWLB borrowing regulations (see **paragraphs 9.1 and 9.3**) so as to give consideration to minimising the spread between the PWLB new borrowing and the new early repayment rates. This then maximises the potential for debt rescheduling in future years by minimising the spread between these two rates.
- 7.3 Based on the forecast PWLB rates set out in **paragraphs 6.1 and 6.3** borrowing will be made where rates are most favourable around 4.5%, although the aim will be to secure loans at rates below this level. This rate is likely to be seen in periods around 25 or 50 years. However if shorter period loans become available around this rate, these will also be considered.
- 7.4 Against this background, the Treasurer will monitor the interest rate market and adopt a pragmatic approach to changing circumstances - any key strategic decisions that deviate from the above will be reported to the Authority as soon as possible.

Sensitivity of the forecast

- 7.5 The main sensitivities of the forecast are likely to be the two scenarios below. The Treasurer will, in conjunction with the County Council's Treasury Management Adviser, continually monitor both the prevailing interest rates and the market forecasts, adopting the following responses to a significant change of market view:
- (i) *if it is felt that there was a significant risk of a sharp rise in both long and short term rates, perhaps arising from a greater than expected increase in world economic activity or further increases in inflation, then the portfolio position will be re-*

appraised with the likely action that fixed rate funding will be drawn whilst interest rates were still relatively cheaper

- (ii) *if it is felt that there was a significant risk of a sharp fall in both long and short term rates, for example due to growth rates weakening, then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short rate funding will be considered.*

8.0 MINIMUM REVENUE PROVISION POLICY

- 8.1 In the Local Government Act 2003 there is a statutory requirement for authorities to set aside a minimum amount for the repayment of debt. The amount set aside is referred to as the Minimum Revenue Provision (MRP), it is approximately 4% of the Capital Financing Requirement and it is charged to the revenue account every year. For authorities who do not hold debt this amount will be zero. From 1 April 2008 the statutory requirement is being replaced with flexible statutory guidance.
- 8.2 All authorities will be legally obliged to have regard to the MRP statutory guidance in the same way as the CIPFA Prudential Code, the CIPFA Treasury Management Code and the DCLG Guidance on Investments.
- 8.3 The new guidance is currently still draft but is expected to be finalised shortly. The guidance requires each authority every year to make an amount of minimum revenue provision which it considers to be “prudent”. The guidance will make recommendations to authorities on the interpretation of prudent provision which is to ensure that debt is repaid over a period reasonably commensurate with that over which the capital expenditure provides benefit.
- 8.4 Having assessed the various options provided by the Government in the guidance, it is proposed that the following MRP policy is adopted from 1 April 2008.
- (a) for all capital expenditure incurred before 1 April 2008, MRP will be based on 4% of the ‘Capital Financing Requirement’ (CFR) at that date. This is for
- expenditure supported by Government borrowing approvals and
 - expenditure agreed to be supported by local Prudential Borrowing
- This is in effect a continuation of the old MRP regulations for all capital expenditure up to 31 March 2008 that has been financed from borrowing.
- (b) for capital expenditure incurred after 1 April 2008, where expenditure is supported by Government borrowing approvals, MRP will be based on 4% of the “capital financing Requirement”.
- (c) for capital expenditure incurred after 1 April 2008, where expenditure is agreed to be supported by locally agreed Prudential Borrowing, MRP will be calculated based on equal annual instalments over the estimated life of the asset for which the borrowing is undertaken.
- 8.5 The estimated life of each asset will be assessed each year based on types of capital expenditure being incurred but in general will be 25 years for buildings, 50 years for land (as advised by DCLG), and 5 to 7 years for vehicles/plant and equipment. This option also allows an authority to defer the introduction of an MRP charge for new capital projects/land purchase until the year after the new asset becomes operational rather than in the year borrowing is required to finance capital spending. This approach may be beneficial for projects that take more than one year to complete.

- 8.6 In terms of timing, the new regulation is expected to come into statute before 31 March 2008 and does therefore require a policy statement to be approved before 31 March 2008 which would specify the policy for 2008/09. In terms of financial impact however, MRP has previously and continues to be calculated based on capital expenditure incurred to the previous 31 March. Thus the proposed new MRP policy as outlined in **paragraph 8.3** above relates to capital expenditure incurred after 1 April 2008 with the consequential impact first affecting the MRP charge for 2009/10.
- 8.7 The new 'statutory guidance' requires authorities to prepare an annual statement of the new MRP policy and report to Members as part of this Annual Treasury Management strategy.

9.0 CHANGES TO THE PWLB REGULATIONS

- 9.1 On 1 November 2007, the PWLB made a number of unexpected changes making the prospect of future debt rescheduling opportunities less attractive.
- 9.2 The changes which were made without any consultation with authorities include
- (i) for all new loans the two main changes are narrower maturity brackets (all bands now have a length of six months compared to a range of six months to five years before 1 November) and rates are expressed in increments of one basis point (previously 5 basis points)
 - (ii) in addition where a debt rescheduling exercise is undertaken there is a new differential rate for new borrowing and early repayment. This differential (or early repayment penalty) ranges between 0.25% and 0.5% and means that PWLB debt restructuring is now much less attractive.
- 9.3 The PWLB facility exists to support delivering services in the authority arena and although borrowing from that source is seen to be slightly more expensive than many market alternatives such as LOBO's, it does provide stability and flexibility to debt portfolios. The new early repayment rate differential (or penalty) is now so great that this will discourage authorities from debt restructuring and indeed perhaps from taking new borrowing from the PWLB. The stability of PWLB fixed rates, compared to market loans, remains unchanged but the previous benefits of flexibility to manage debt portfolios through rescheduling has been eroded to a large extent.

10.0 SUMMARY OF ANNUAL INVESTMENT STRATEGY (AIS)

- 10.1 The Treasury Management Contract with North Yorkshire County Council covers the day to day investment requirements of the Authority. The net return/cost achieved by the County Council officers will be closely monitored by the Treasurer to ensure it does not diverge from the budgeted amount.
- 10.2 Within the terms of the contract the County Council continues to make all investments in accordance with the Local Government Act 2003 which requires an Annual Investment Strategy to be approved. A copy of the County Council's AIS is available for members on request. The information below outlines the strategy for investments.
- 10.3 In summary the Authority's Investment priorities are:

- (i) the authority will ensure that its money is properly managed with the County Council in a way that balances risk with return, but with the overriding consideration being given to the security of the authority's capital sum.
 - (ii) the authority will aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity
 - (iii) the borrowing of monies purely to invest or on-lend and make a return is unlawful and the County Council will not engage in such activity
 - (iv) investment instruments for use in the financial year are listed under **Specified** and **Non Specified investment** categories (**see paragraph 10.8-10.9**)
 - (v) Counterparty Limits (which are set to secure the surplus funds the authority lends to counterparties) will be as set through the County Council's Treasury Management Practices Schedules
- 10.4 The County Council currently manages its cash balances internally, although until recently an element was managed by Investec Asset Management Ltd.
- 10.5 Ongoing discussions will be held with the County Council's Treasury Management Adviser on whether to consider the appointment of fund manager(s) or continue investing in-house or any other appropriate investment opportunities.
- 10.6 The authority's surplus funds are invested with the County Council's funds and therefore the investment interest earned by the authority will be from a combination of different short and long term investments.
- 10.7 Significant changes have been made to the Lending List of the County Council for the 08/09 Treasury Management and Investment Strategy. This revised lending list is detailed in **Schedule A**.
- 10.8 The Investment Counterparty Limits 2008/09 lending list, is divided between Specified and Non-Specified Investments. The guidance under the 2003 Act identifies investments, for the purpose of security, as either being specified or non-specified.
- 10.9 Specified Investments are defined (in the guidance) as being:
- (a) denominated in sterling
 - (b) not longer than 364 days
 - (c) not defined as capital expenditure
 - (d) investments made with a body which has been awarded a high credit rating or is made with any of the following:
 - i. the UK Government
 - ii. a local authority in England, Wales, Scotland or Northern Ireland
 - iii. a parish or community council
- Non-Specified Investments are defined (in the guidance) as being "those investments not meeting the definition of Specified Investments above".
- 10.10 Following the Bank Rate reduction in December 2007 from 5.75% to 5%, the interest rate outlook is a downward trend with a further reduction to 5.25% in early 2008 and 5% in mid 2008 being forecast. It is then expected to remain unchanged for the next two years. The County Council will seek to lock in longer period investments at higher rates for some of its investment portfolio (which represents its core balances) before the expected interest rate fall starts. A rate in excess of 5.45% for one year deposits and in excess of 5.55% for two and three year deposits has been determined as an attractive investment trigger rate given current bank rate forecasts. These trigger

points will however be kept under review and discussed with the Treasury Management Adviser so that investments can be made at the appropriate time.

JOHN MOORE
Treasurer

Finance and Central Services
County Hall
Northallerton
28 January 2008

INVESTMENT COUNTERPARTY LIMITS FOR 2008/09

Maximum sum invested at any time (The overall total exposure figure covers both Specified and Non-Specified investments)	Specified Investments (up to 1 year)		Non-Specified Investments Total Limit £12m (over 1 year)	
	Total Exposure £m	Time Limit	Total Exposure £m	Time Limit
Category 1 - Banks				
<i>(a) UK Clearing Banks, and UK based banks approved by the Bank of England</i>				
Abbey	15.0	364 days	5.0	2 years
Barclays Bank/Woolwich	15.0	364 days	5.0	5 years
Clydesdale Bank (trading as Yorkshire Bank)	15.0	364 days	5.0	2 years
Credit Suisse International	15.0	364 days	5.0	2 years
HBOS (Halifax, Bank of Scotland)	15.0	364 days	5.0	5 years
HSBC	15.0	364 days	5.0	5 years
Lloyds/TSB Group	15.0	364 days	5.0	5 years
Royal Bank of Scotland / Nat West Bank / Ulster Bank	15.0	364 days	5.0	5 years
Alliance and Leicester	8.0	3 months	-	-
Bradford & Bingley	8.0	3 months	-	-
Co-operative Bank	8.0	3 months	-	-
Kaupthing Singer and Friedlander Ltd	8.0	3 months	-	-
<i>(b) High Quality Foreign Banks</i>				
National Australia Bank	Australia	See above – Clydesdale Bank is a subsidiary of National Australia Bank		
Dexia Bank	Belgium	15.0	364 days	5.0 5 years
Fortis Bank	Belgium	15.0	364 days	5.0 2 years
KBC Bank	Belgium	15.0	364 days	5.0 2 years
Canadian Imperial Bank of Commerce	Canada	15.0	364 days	5.0 2 years
Nordea Bank Finland	Finland	15.0	364 days	5.0 2 years
CAYLON	France	15.0	364 days	5.0 5 years
Credit Industriel et Commercial	France	15.0	364 days	5.0 2 years
Credit Agricole	France	15.0	364 days	5.0 5 years
Societe Generale	France	15.0	364 days	5.0 2 years
Bayrische Landesbank	Germany	8.0	3 months	- -
Deutsche Bank	Germany	15.0	364 days	5.0 2 years
Dresdner Bank	Germany	8.0	3 months	- -
HSH Nordbank (AG)	Germany	8.0	3 months	- -
Landesbank Baden- Wuerttemberg	Germany	8.0	3 months	- -
Norddeutsche Landesbank Girozentrale	Germany	8.0	3 months	- -
DBS Bank (Hong Kong)	Hong Kong	15.0	364 days	5.0 2 years
Glitner Banki	Iceland	8.0	3 months	- -
Landsbanki Islands	Iceland	8.0	3 months	- -
Intesa Sanpaolo Spa	Italy	15.0	364 days	5.0 2 years
Banco Espirito Santo SA	Portugal	8.0	3 months	- -
Allied Irish	Rep of Ireland	15.0	364 days	5.0 2 years
Anglo Irish	Rep of Ireland	8.0	3 months	- -
Bank of Ireland (Bristol & West)	Rep of Ireland	15.0	364 days	5.0 2 years
Depfa	Rep of Ireland	15.0	364 days	5.0 2 years
Irish Life & Permanent	Rep of Ireland	8.0	3 months	- -
Irish Intercontinental Bank (IIB)	Rep of Ireland	8.0	3 months	- -
Nordea Bank AB	Sweden	15.0	364 days	5.0 2 years

SCHEDULE A

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

	Specified Investments (up to 1 year)		Non-Specified Investments Total Limit £10m (over 1 year)	
	Total Exposure £m	Time Limit	Total Exposure £m	Time Limit
Category 2 – Building Societies				
<i>(a) Group 1 – Rated F1/AA or equivalent</i>				
Britannia	8.0	3 months	-	-
Chelsea	8.0	3 months	-	-
Cheshire	8.0	3 months	-	-
Coventry	8.0	3 months	-	-
Derbyshire	8.0	3 months	-	-
Dunfermline	8.0	3 months	-	-
EBS	8.0	3 months	-	-
Leeds	8.0	3 months	-	-
Nationwide	15.0	364 days	5.0	2 years
Newcastle	8.0	3 months	-	-
Norwich & Peterborough	8.0	3 months	-	-
Principality	8.0	3 months	-	-
Scarborough	8.0	3 months	-	-
Skipton	8.0	3 months	-	-
Yorkshire	8.0	3 months	-	-
West Bromwich	8.0	3 months	-	-
Category 3 - Local Authorities				
<i>(a) Group 1</i>				
County Councils	15.0	364 days	5.0	5 years
English Unitary Councils	15.0	364 days	5.0	5 years
Metropolitan District Councils	15.0	364 days	5.0	5 years
<i>(b) Group 2</i>				
District Councils	15.0	364 days	5.0	5 years
Police Authorities	15.0	364 days	5.0	5 years
Fire Authorities	15.0	364 days	5.0	5 years
National Park Authorities	15.0	364 days	5.0	5 years
Category 4 - Other Deposit Takers				
<i>(a) Money Market Funds with highest possible rating (AAA) for that fund type, by at least one of the three major credit rating agencies (Moody's, Standard and Poor, Fitch)</i>	15.0	364 days	5.0	5 years
<i>(b) UK Government Debt Management Account Deposit Facility ('AAA' rated)</i>	15.0	364 days	2.5	5 years