Yorkshire Dales National Park Authority **Item 9**

31 March 2026

Treasury Management and the Prudential Code for Capital Finance

Purpose of the Report

1. To set out the Annual Treasury Management and Capital Strategies for 2026/27.

Recommendation

2. That Members approve the Annual Treasury Management and Capital Strategies, as set out in the Annexes.

Strategic Framework

3. The information and recommendations contained in this report are consistent with the Authority's statutory purposes and support the strategic planning framework:

    - Corporate Plan Objective 28:

      Plan and manage the Authority's work so as to make the most effective use of our resources.

Background

4. The Treasury Management Strategy Statement is required to ensure compliance with the Local Government Act 2003 and the Local Authorities (Capital Finance & Accounting) Regulations England 2003.

5. The document sets out the Authority's approach for ensuring that its capital investment plans are prudent, affordable and sustainable, assessing the need for longer term borrowing and longer term cashflow planning.

6. The Authority needs to ensure cash balances are properly invested to generate optimum returns having regard to security and liquidity. Surplus monies are invested in line with the Authority's low risk appetite.

7. The Act requires the Authority to set out a statement of the following:

    - **prudential indicators**, which in turn provide us with the ability to borrow, should we need to, in order to fund capital spending.

- an **Annual Investment Strategy,** for the Authority's cash resources and borrowing.

- a **Capital Strategy**.

8. As of March 2026, the Authority has no loan borrowings. Nonetheless, the possibility of borrowing is an option available when making decisions about how to finance our capital spending. The **prudential indicators** within this Strategy meet the rules that would allow a decision to be taken to borrow funds if that proves to be the optimum solution.

9. The Authority's **Cash investment** is managed under a contract with North Yorkshire Council (NYC) and is limited to the interest-earning investment of cash reserves and working capital balances. Our money is pooled with that of other similar bodies for which NYC also undertakes this service. The investment strategy is focused primarily on underwriting the security of capital and liquidity of investments, whilst seeking the highest return on its investments. Investments comprise short to medium term interest-bearing loans and deposits with banks and related institutions.

10. The requirement for a **Capital Strategy** is set out in CIPFA's Code of Practice on Treasury Management. The strategy is intended to provide a high-level overview of how capital expenditure, capital financing and treasury management contribute to the provision of service objectives This takes account of stewardship, value for money, prudence, financial sustainability and affordability.

The Treasury Management Strategy for 2026/27

11. The detailed strategy is set out in **Annex 1**. CIPFA regulations and guidance require that it covers a number of related areas:

    - **Prudential Indicators.** This sets the context for any future borrowing the Authority might wish to undertake.

    - The **Minimum Revenue Provision Policy.** This sets out the Authority's approach to repaying any capital borrowing over time.

    - **Treasury Management Practices** (TMPs). These describe how the Authority will seek to control Treasury Management. As all the investment activities of the Authority are carried out by NYC, it is necessary to adopt the TMPs used by NYC to govern its own Treasury Management activities in so far as these relate to investment. A copy of the NYC TMPs is available to Members on request.

    - The adoption of NYC's **Annual Investment Strategy** and **Approved Lending list.**

12. The Authority is also required to have a **Treasury Management Policy Statement**. This is set out below.

    The Authority defines the policies and objectives of its treasury management activities as follows:

- Treasury management is the management of the Authority's investments and cash flows, its banking, money market and capital market transactions, the effective control of the risks associated with these activities, and the pursuit of optimum performance consistent with these risks.
- The successful identification, monitoring and control of risk will be the prime criteria by which the effectiveness of the treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Authority.
- Effective treasury management will support the achievement of the business and service objectives of the Authority. The Authority is committed to the principles of achieving best value in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.

13. CIPFA's Code of Practice on Treasury Management emphasises that the responsibility for risk management and control of treasury management activities lies with the Authority and its officers.

Local Authority Investments and Annual Investment Strategy

14. Under Section 15 (1) (a) of the Local Government Act 2003, the Authority is required to have regard to Investment 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.

15. Because investment activity is undertaken on behalf of the Authority by NYC, the practical result of this is that we are required to adopt NYC's AIS. A copy is available to Members on request.

Treasury Management Reporting and Scrutiny Arrangements

16. The CIPFA Code of Practice on Treasury Management requires that each authority must receive reports on its Treasury Management policies, practices and activities, including as a minimum an **annual strategy** and plan in advance of the year, a **quarterly review** and an **annual outturn report** after the end of the year. These requirements are included in the Authority's Financial Regulations, with the annual strategy being approved at the March Authority meeting, and oversight of the review and performance reports being delegated to the Finance & Resources Committee.

Capital Strategy

17. The Capital Strategy for 2026/27 (**Annex 2**) describes the approach to our planned investment in refurbishing, developing and replacing capital assets, including property and premises, plant and equipment, and IT; there is a strong link between this strategy

and the Authority's Reserves Strategy, which contains specific reserves earmarked to fund capital expenditure.

18. In 2026/27 the Authority is expecting to receive £1.6m as Capital grant. In addition, work is underway to identify existing projects which may have their expenditure reclassified from Revenue to Capital in order to take advantage of this funding. Revenue expenditure funded from capital under statute (REFCUS) allows the Authority to capitalise some elements where it would normally class the expenditure as revenue.

Legal Implications

19. None

Equality, Diversity and Inclusion Implications

20. None

Conclusion

21. The Treasury Management and Capital Strategies set out in this report are designed to support good financial governance; they also underpin capital investment and cash flow management processes.

Michelle Clyde
Treasurer

Annex 1

Treasury Management Strategy and Statement 2026/27

Introduction

1. The production and submission to Members of this Treasury Management Strategy is a requirement of the Local Government Act 2003, as codified in the CIPFA Treasury Management Code of Practice in the Public Sector & Prudential Code. The Strategy covers:

    - Treasury Limits in force which will limit the treasury risk and activities of the Authority
    - Prudential Indicators
    - Current treasury position
    - Borrowing Requirement and Borrowing Limits
    - Borrowing Policy
    - Prospects for interest rates
    - Borrowing Strategy
    - Minimum Revenue Provision Policy
    - Annual Investment Strategy

Treasury Limits for 2026/27 - 2028/29

2. Affordable Borrowing Limit (ABL); It is a statutory duty under Section 3 of the Local Government Act 2003 for the Authority to determine and keep under review how much it can afford to borrow. The ABL covers loans and other forms of liability, such as credit and lease arrangements. The ABL must be set on a rolling basis for the forthcoming financial year and two successive financial years.

3. The Authority must have regard to the Prudential Code when setting the Affordable Borrowing Limit, which 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.

4. International Financial Reporting Standard 16 - Leases. Any leasing contracts that the Authority currently holds or enters into (for property, plant and equipment), will be classed as finance leases and capitalised, unless they are of low value or less than 12 months.

5. In accounting terms this means bringing lease assets and matching liabilities onto the balance sheet. The assets will increase by the lease value, and the lease liability will be recognised. This liability is classified as debt under the Prudential Code. However, as this debt relates to transactions that the Authority has already approved, this is purely an administrative task to increase the Prudential Code Indicator limits equal to the newly recognised debt.

Prudential Indicators 2026/27 - 2028/29

6. The Prudential Indicators are as follows.

i. Estimated Ratio of Capital Financing Costs to the Net Revenue Budget (Affordability)

This indicator identifies the percentage cost of borrowing to the Authority (i.e. interest payments), net of interest earned on cash balances.

The estimated ratios for the current and future years, the actual figure for 2024/25 and the probable figure for 2025/26 are set out in the table below. Where the expected earned interest on working capital is predicted to exceed that of the interest payable on possible borrowing as set out in the later indicators, the effective percentage is NIL. This is now the case for the years to and including 2028/29, as we are projecting working capital levels that would be likely to generate more interest income than the interest payments that would result from borrowing were we to fund capital spending from loans.

Year	Basis	%
2024/25	actual	0.00%
2025/26	probable	0.00%
2026/27	estimate	0.00%
2027/28	estimate	0.00%
2028/29	estimate	0.00%

ii. Capital Expenditure Plans (Actual and Estimated)

This table shows total capital spending plans for the Authority. All the prudential indicators that follow are based upon the possible borrowing requirement were the Authority to fund all of this spending through loans, this does not commit the Authority to use this source of finance.

Year	Basis	£k
2024/25	actual	394
2025/26	probable	1,100
2026/27	estimate	1,688
2027/28	estimate	1,686
2028/29	estimate	1,682

iii. Capital Financing Requirement and Forecast

The Capital Financing Requirement defines the underlying need to borrow to pay for capital spending. For the Authority this is just the long-term leases for vehicles and buildings.

Year	Basis	Borrowing £k	Long Term Liabilities £k	Total £k
2024/25	actual	0	0	0
2025/26	probable	0	102	102
2026/27	estimate	0	119	119
2027/28	estimate	0	117	117
2028/29	estimate	0	113	113

iv. Authorised Limit for External Debt

This sets the limit beyond which borrowing by the Authority is prohibited, and is based upon the best estimate of increases in debt arising from the capital financing requirement. A margin (£250k) to allow some flexibility for unforeseen cash movements, forms part of the next indicator.

The limit is analysed between borrowing and other long term liabilities (such as finance leases) to show the actual debt owed by the Authority. The Treasurer has delegated authority to make changes between the separately agreed limits for borrowing and other long term liabilities, in accordance with option appraisal, value for money and other relevant factors.

The recommended Authorised limits for external debt are as follows:

Year	Borrowing Limit £k	Other Long Term Liabilities £k	Total £k
2026/27	250	119	369
2027/28	250	117	367
2028/29	250	113	363

The Authorised Limit is consistent with the Authority's current commitments and budget process.

Under Section 3(1) of the Local Government Act 2003 the Authority must set an affordable borrowing limit for the coming year. The Authorised limit of £369k will act as this limit for 2026/27.

v. Operational Boundary for External Debt

This is based on the probable external debt position during the year. It is not a limit and actual borrowing could vary around this boundary during the year. The difference between this indicator and the Authorised Limit is the £250k which provides headroom for unusual cash movements.

The operational boundary is analysed between borrowing and other long term liabilities separately. The Treasurer has delegated authority to make in-year changes to the operational boundary and its sub-categories.

Year	Boundary Limit £k	Other Long Term Liabilities £k	Total £k
2025/26	0	119	119
2026/27	0	117	117
2027/28	0	113	113

vi. Actual External Debt

This Authority had no external borrowings at 24 March 2026, and this position is unlikely to change by 31 March 2026.

vii. CIPFA Code Compliance

The CIPFA Code of Practice on Treasury Management in the Public Services (updated in December 2021) is followed when setting this strategy.

viii. Interest Rate Exposures

If the Authority were to borrow during 2026/27, it would follow the Borrowing Strategy as set out in this document. Loans could be obtained from the Public Works Loan Board (PWLB), from the money market, or by borrowing against internal surplus cash balances. Any borrowing could be either at a fixed or variable interest rate, depending on the circumstances prevailing when any loan was taken out.

To allow flexibility this indicator sets an upper limit on fixed interest rate exposures for 2026/27, 2027/28 and 2028/29 of up to 100% of the Authority's net outstanding principal sums. The upper limit for variable interest rate exposure is set at 40% of net outstanding principal sums; this reflects the riskier nature of these types of loan. A maximum of 20% of cash balances can be invested for periods of longer than 364 days.

If the Authority does decide to borrow the Treasurer will manage fixed and variable interest rate exposures within the ranges in the next table.

Borrowing	% of outstanding principal sums
Limits on fixed interest rate exposures	60 to 100
Limits on variable interest rate exposures	0 to 40
Investing	
Limits on fixed interest rate exposures	0 to 30
Limits on variable interest rate exposures	70 to 100

ix. Gross Debt and the Capital Financing Requirement

Over the medium term, debt should only be used for a capital purpose. Therefore, the Authority must ensure that debt does not, except in the short term, exceed the total of the capital financing requirement in the preceding year, plus the estimate of any additional capital financing requirement for the current and next two financial years. The Authority has met this requirement up to the present date; with no borrowing planned, no difficulties in relation to this requirement are anticipated for the period covered by this report up to and including 2028/29.

x. Maturity Structure of Borrowing

Upper and lower limits for the maturity structure of borrowings are set to allow maximum flexibility:

Period	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%

xi. 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.

xii. Ratio of net income from commercial and service investments to net revenue stream

Year	Basis	%
2024/25	Actual	0.02%
2025/26	Probable	0.01%
2026/27	Estimate	0.01%
2027/28	Estimate	0.01%

xiii. Liability Benchmark

This is a measure of how well the existing loans portfolio matches the Authority’s planned borrowing needs over the medium (at least three years) to long term (ideally, 10 years). The Authority has no loan portfolio. Calculation of this benchmark will follow if and when any loans are taken up; at the date of this report, the Authority had no plans to borrow.

The Current Treasury Position

7. As at 31 December 2025, the Authority's Treasury position was as below

Item	Principal at 31 Dec 2025 £'000	Average return 2025/26 to 31 December 2025
Debt Outstanding	0	
Investments	0.020	5%
Managed by NYC	5,983	4.46%

*This figure reflects the principal held as at 31 December 2025. The average daily balance from 1 April 2025 to 31 December 2025 was £6.255m.

The Authority has made share investments in Broadband for the Rural North (B4RN), in order to facilitate broadband investments across the National Park. As at the date of this report, the value of these investments stood at £20k. These investments are held for service delivery purposes.

The Borrowing Limit and Borrowing Requirements

8. The Operational Boundary for external debt is an estimate of the most likely, prudent scenario for external debt during 2026/27. The Authorised Limit is based on the same estimate as the Operational Boundary but includes sufficient headroom over this figure to allow for unusual cash movements.

9. The Authorised Limit is therefore 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 need to borrow up to the limit agreed.

Borrowing Policy

10. The policy of the Authority is that if external borrowing is required to finance capital expenditure, then loans will be sought from the PWLB or the money markets, over periods of up to 70 years which reflect the best possible value to the Authority and/or the life of the Authority's assets. Individual loans will be chosen depending on the perceived value of interest rates at the time of borrowing.

11. If borrowing were to be undertaken from the money markets, then such loans should be limited to 30% of the total debt portfolio.

12. The Authority will look to borrow from the PWLB and money markets at the most advantageous rate.

13. The Authority will not borrow more than or in advance of need purely in order to profit from the investment of the extra sums borrowed. Any such borrowing in advance of need will only be considered where there is a clear business case for doing so.

14. The Authority will not borrow to fund assets held for commercial return, and will only borrow to fund ‘service delivery’ assets where the income they generate is either related to the financial viability of the project in question or otherwise incidental to the primary purpose.

15. The merits of internal capital borrowing from the Authority’s surplus cash balances will be considered very carefully, should borrowing ever be anticipated.

Prospects for Interest rates

16. Interest rates in the UK reduced to 3.75% in December 2025, the Bank of England said if inflation stays on track, we should be able to gradually reduce interest rates further, we will continue to monitor developments in the UK and internationally. This suggests interest % rates will drop over the coming year although the Treasury Management function regularly performs above the Bank of Interest rate.

17. These projections are broadly in line with our budget for 2026/27, which assumes an average interest rate for the year of 3.5% on an estimated average balance of £5m.

The Borrowing Strategy

18. New borrowing activity will take advantage of the lowest borrowing rates available from the PWLB. The choice of the loan period will depend not just on the required duration of any loan but also on the Authority’s attitude to risk. Longer term loans with fixed interest rates provide certainty over repayments, but have higher interest rates attached to them because of that insurance. A series of shorter term loans could be cheaper, but would lose that certainty.

External versus internal borrowing

19. The Authority has its own cash balances. This sum is made up of ‘cash’ items (including creditors), reserves, balances and provisions.

20. This borrowing policy provides for shorter term borrowing from the Authority's revenue cash balances, if that option is preferable to other alternatives. Because investment rates are normally below long term borrowing rates, using internal cash balances to finance new capital expenditure could be cost efficient.

Minimum Revenue Position

21. Under Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, where the Authority 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 Authority is also allowed to undertake additional voluntary payments, the Voluntary Revenue provision (VRP), if required.

22. Along with the above duty the Government also issued guidance in February 2008 which requires that a Statement on the Authority's policy for its annual MRP should be submitted to the Authority for approval before the start of the financial year to which the provision will relate. The Authority is legally obliged to have regard to this MRP guidance in the same way as applies to other statutory guidance such as a CIPFA Prudential Code, the CIPFA Treasury Management Code and the CLG guidance in Investments.

23. The policy for 2026/27 considers the fact that the Authority has no outstanding debt but does have leased assets. The proposed policy is as follows.

24. For locally agreed Prudential Borrowing on capital expenditure incurred, MRP will be calculated based on equal annual instalments over the estimated useful life of the asset for which the borrowing is undertaken. For finance leases, MRP will be equivalent to the annual rental payable under the lease agreement.

25. The estimated life of relevant assets will be assessed each year based on types of capital expenditure incurred but in general will be between 35-50 years for buildings, perpetuity for land, 5 - 20 years for vehicles, plant and equipment, and 3-6 years for IT equipment. This policy has been used, in respect of the requirement for capital expenditure, to calculate the provisions within the Prudential Indicators.

Annual Investment Strategy (AIS)

26. The Authority's investment management arrangement with NYC covers its investment requirements. The net return achieved will be monitored by the Treasurer, allowing the position relative to budget assumptions to be reviewed. NYC continues to make all investments in accordance with the Local Government Act 2003, which requires an Annual Investment Strategy to be approved. The Authority has, therefore, adopted the Annual Investment Strategy approved by NYC. A copy of the document is available for members on request. The information below outlines the strategy for investments.

27. **The Authority's investment priorities are:**

    (i) To have regard to the Government Guidance on Local Government Investments and the CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes.
    (ii) To ensure the security of capital (protecting the capital sum from loss); and to maintain liquidity (keeping the money readily available for expenditure when needed).
    (iii) To seek the highest return (yield) on its investments provided that proper levels of security and liquidity are achieved.

28. The Authority's temporarily-surplus funds are pooled with NYC's funds plus those of other local authorities participating in the investment pool. The investment interest earned by the Authority will be from a combination of different investments held over differing periods. The current edition of NYC's Approved Lending List (investing) is available on request.

Annex 2

Capital strategy 2026/27

Background

1. The purpose of the Capital Strategy is to demonstrate that the Authority takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability. It sets out the long term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward, and impact on the achievement of priority outcomes.

   The Strategy is required to cover three distinct but inter-related elements, as follows:

   (a) Capital Expenditure: an overview of the Authority's governance process for approval and monitoring of capital expenditure, including the Authority's policy on capitalisation, and an overview of its capital expenditure and financing plans.

   (b) Capital financing and borrowing. A projection of the Authority's capital financing requirement, how this will be impacted by capital expenditure decisions and how it will be funded and repaid. It therefore sets out the Authority's borrowing strategy and explains how it will discharge its duty to make prudent revenue provision for the repayment of debt.

   (c) Treasurer's statement, meeting the requirement to report on the affordability and risk associated with the capital strategy.

Capital Expenditure

Capitalisation policy

2. Expenditure is classified as capital expenditure when it results in the acquisition or construction of an asset (e.g. land, buildings, vehicles, plant and equipment, including IT infrastructure) that:

   (a) will be held for use in the delivery of services, for rental to others, investment or for administrative purposes;

   (b) is of continuing benefit to the Authority for a period extending beyond one financial year.

   (c) can be classified as capital expenditure under Revenue expenditure funded from capital under statute (REFCUS) where the asset may not belong to the Authority but the expenditure is of a capital nature.

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

Governance

3. Capital investment in new and improved assets is necessary to support delivery of the Authority's services. Capital expenditure is managed through the annual budget as part of the budget setting process and reviewed quarterly as part of the monitoring arrangements for financial performance.

Capital Expenditure and Funding Plans

4. Capital expenditure can be financed from any of the following sources:

    - Capital grants
    - Capital receipts – amounts generated from the sale of assets and the repayment of any capital loans or grants
    - Revenue contributions – amounts set aside from the revenue budget, funded by income (e.g. Defra core grant)
    - Reserves
    - Borrowing – amounts that the Authority does not need to fund immediately from cash resources, but instead charges to the revenue budget over a number of years into the future.

5. The Authority's capital expenditure plans are supported by a series of asset strategies and projections which are designed to ensure that our work is supported by capital assets that are fit for purpose.

6. Full strategies are prepared for Property Management and IT Development, each covering a five-year period and including a fully costed investment requirement. These Strategies undergo a full revision and reappraisal every five years, but their investment requirements are updated annually, to give a rolling five-year projection, which is in turn met from Reserves. The environmental sustainability of these strategies is considered when they are revised and as they develop over their lives, in order to make the optimum contribution towards the Authority's CO2e reduction target.

7. The Authority holds Earmarked Reserves to fund the Property, Plant and IT Capital programmes, this is to smooth the spending so there are no spikes of expenditure in any one year that cannot be financed.

8. The Authority also holds shares in Broadband for the Rural North (B4RN), made to facilitate broadband investments across the National Park (so are held for service delivery purposes). Such investments constitute capital spending. As at the date of this report, the value of these investments stood at £20k; they will be redeemed as they come to the end of the minimum holding term.

Capital Financing Requirement and borrowing

9. In order to assess affordability, prudence, and financial sustainability of capital investment plans, the Authority is required to prepare and maintain a set of prudential

indicators. These demonstrate the impact over time of the Authority's capital expenditure plans on the revenue budget and upon borrowing and investment levels. They also explain the processes designed to ensure that the activity remains affordable, prudent and sustainable.

10. Key components of this approach are:

- The Capital Financing Requirement for future borrowing plans;
- External Borrowing Limits to match these requirements;
- The Borrowing Strategy;
- The Minimum Revenue Provision, being the amount needed to be set aside each year from revenue sources to cover any loan repayments.

The above are covered within the Treasury Management Strategy for 2026/27, so are not repeated here.

Risk

11. The Authority's appetite for risk is low in relation to its Treasury Management activity: the primary objectives are to ensure the security of capital and to maintain liquidity, and only when these objectives are met, to seek the highest return (yield) on its investments. Because the Authority has no external debt and has no plans for any borrowing, it doesn't currently face any risk (such as exposure to changing interest rates) from that direction. Should borrowing ever be considered, a thorough analysis of risk will be undertaken before any decision is made.

Treasurer's Statement

12. National Park Authorities determine their own programmes for investment, designed to support the delivery of quality public services. The Capital Strategy gives the long term context in which capital expenditure and investment decisions are made.

13. There is a requirement that the Treasurer / Chief Finance Officer reports on the affordability and risk associated with this strategy.

14. The Capital strategy presented here provides an overview of the governance process for approval and monitoring of capital expenditure. These processes are well established and are effective in ensuring delivery of the Authority's capital investment plans. The Capital Strategy and prudential indicators demonstrate that the capital expenditure, investment and financing plans of the Authority are robust, affordable and sustainable over the period under consideration.

15. I can also confirm that the Authority has complied with paragraphs 51 to 53 of the Prudential Code in relation to investments for commercial purposes, in particular the requirement that an authority must not borrow to invest for the primary purpose of financial return.

Michelle Clyde
Treasurer

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