YORKSHIRE DALES NATIONAL PARK AUTHORITY		**ITEM 14**
Date:	**28 March 2023**	
Report:	**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 2023/24.

RECOMMENDATIONS

2. That Members:
   - (i) note the changes made to the Authority's approach to Treasury Management and Capital Finance, following the introduction of revised codes covering those matters;
   - (ii) approve the Annual Treasury Management and Capital Strategies, as set out in the **Annexes**;
   - (iii) approve the change in responsibility (from the Audit & Review Committee, to the Finance & Resources Committee) for monitoring Treasury Management and Capital Finance reporting.

Strategic Planning Framework

3. The information and recommendations contained in this report are consistent with Corporate Action Plan objective 34, Plan and manage the Authority's work so as to make the most effective use of our resources.

Background

4. Like all local authorities, the Yorkshire Dales National Park Authority is required to abide by a series of financial codes of practice. In doing so it meets its obligations under the Local Government Act 2003 and the Local Authorities (Capital Finance & Accounting) Regulations England 2003.

5. When it comes to treasury management, which is managing our working capital cash balances and the potential to borrow to fund capital spending, we must 'have regard to' i.e. comply with, the relevant codes. Revised editions of these codes were published in late 2021/ early 2022, with the expectation of a soft launch in 2022/23 and their full adoption through incorporation into the relevant policies and strategies by local authorities in 2023/24.

6. Although the codes and associated guidance documents are very extensive, much of their content doesn't apply to the relatively simple financial circumstances of the Authority. However, where aspects of the codes are relevant to the Authority, any required changes have been incorporated into this report and into the processes to be operated by the Authority; these changes are listed in **Annex 1**.

The status of this report

7. This Report is a statutory requirement linked to the independent financial status of the Authority, it meets our obligations to set:

    - **prudential indicators**, which would in turn create the opportunity to borrow to fund capital spending;

    - an **investment strategy** for our cash resources;

    - a **capital strategy**.

    The significance of each of these items is summarised below. For the Yorkshire Dales national Park Authority, the issues involved are straightforward. The structure of the remainder of the report meets the requirements of the codes we are obliged to follow in setting out these strategies.

8. As at March 2023, the Authority has no loan borrowings. Nonetheless, the possibility of borrowing is an option available to the Authority when making decisions about the best way to finance 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. Nothing in this report commits the Authority to a decision to borrow funds.

9. **Cash investment** is delivered under a contract with North Yorkshire County Council (NYCC) 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 NYCC 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 and takes account of stewardship, value for money, prudence, financial sustainability and affordability. The details of the Authority's planned capital investment are set out in the IT and Property Strategies, which are additional to this set of documents.

The Treasury Management Strategy for 2023/24

11. The detailed Strategy is set out in **Annex 2**. CIPFA regulations and guidance require that this Strategy covers a number of related areas:

    - **Prudential Indicators**, setting 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) describe the manner in which the Authority will seek to control Treasury Management. As all the investment activities of the Authority are carried out by NYCC, it is necessary to adopt the TMPs used by NYCC to govern its own Treasury Management activities in so far as these relate to investment. A copy of the NYCC TMPs is available on request.

- The adoption of NYCC'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 wholly 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 NYCC, the practical result of this is that we are required to adopt NYCC's AIS. A copy is available 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 **mid-year review** and an **annual outturn report** after the end of the year. These requirements are included in the Authority's Financial Regulations (12.3), with the annual strategy being approved at the March Authority meeting, and oversight of the other two reports (review; outturn) being delegated to the Audit & Review Committee.

17. However, the Code requires that reports on financial performance in relation to the Strategy should be prepared on a quarterly basis. To accommodate this, it is proposed that the oversight role passes from the Audit & Review Committee to the Finance & Resources committee:

- The F&R Committee already has responsibility for oversight of budget management, including the budget for investment income (a key outcome of Treasury Management), so there is a natural fit with that role

- That committee meets quarterly, so compliance with best practice can be facilitated

18. In practice, reporting against Treasury Management financial variations is unlikely to be necessary except under exceptional circumstances, so a 'reporting by exception' approach would be adopted; this can be readily accommodated within the existing quarterly budget updates, which already include details of investment income performance.

Capital Strategy

19. The Capital Strategy for 2023/24 (**Annex 3**) 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.

Conclusion

20. The Treasury Management and Capital Strategies set out in this report are designed to support good financial governance; they also underpin aspects of budget setting (e.g. capital investment) and working capital / cash flow management processes. The recommendations arising from this report are set out in paragraph 2.

Michelle Clyde
Treasurer
14 March 2023

Changes made to the Treasury Management process

The latest revisions[1] to the Treasury Management and Capital Finance Codes require that a small number of adjustments be made to the Authority's processes.

Requirement	*Response*
Treasury Management Strategy (TMS)	
The Chief Finance Officer is required to establish procedures to monitor and report performance against all forward-looking indicators at least quarterly, as part of normal revenue and capital monitoring.	To be addressed through established reporting arrangements (see paragraphs 17 and 18 of covering report).
Investments to be classified according to whether they are held for treasury management purposes, service delivery or for commercial return.	All investments are held for treasury management purposes (i.e. cash flow / security of funds, + interest income), with the exception of investments in B4RN, held for service delivery purposes; these investments will be included with TM Reporting. We hold no investments for commercial return.
An authority should not borrow to fund assets held for commercial return, but 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.	An appropriate clause has been added to the Borrowing Policy section of the TMS.
Introduction of indicators to illustrate how much of our income is derived from investments other than bank interest: (i) <u>estimates of the net income from commercial and service investments to net revenue stream</u>; (iii) <u>actual net income from commercial and service investments to net revenue stream</u>.	Added to the TMS; Annex 2, paragraph 5 (xii).
Introduction of a prudential indicator for <u>Liability Benchmark</u>, showing how well the existing loans portfolio matches planned borrowing needs over the medium (at least three years) to long term (ideally, 10 years).	Added to the TMS; Annex 2, paragraph 5 (xiii).
Capital Strategy (CS)	
To include a statement as to whether 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.	Added to the CS; Annex 3, paragraph 14.

[1] Treasury management in the public services: Code of practice and cross-sectoral guidance notes (December 2021); Treasury management in the public services: Guidance notes for local authorities, including police and crime commissioners and fire and rescue authorities (January 2022); The Prudential Code for capital finance in local authorities (December 2021); The Prudential Code for capital finance in local authorities: Guidance notes for practitioners (January 2022).

The requirement to consider how capital expenditure is prioritised in relation to the priorities and policies of the authority, including environmental sustainability. The CS should reference the authority's environmental and carbon policies and how the proposed capital programme has addressed them.	Referenced in paragraph 6 of the CS. Details of how our component capital strategies (for Premises and IT) meet the Authority's objectives are included in those strategies.
All financial and non-financial assets held for financial return be included.	The value of our temporary investments (loans / shares) in Broadband for the Rural North has been added; Annex 3, paragraph 8.
The CS should include information on the authority's risk appetite in terms of TM and the key risks it faces in terms of servicing its current and future debt requirement, and how these are managed, along with commentary on the sensitivity of projections.	A short section on Risk has been added; Annex 3, paragraph 11.
Include a summary of the knowledge and skills available to the organisation and confirmation that these are commensurate with the Authority's risk appetite.	The Authority employs a professionally-qualified accountant. Investment activity is undertaken on behalf of the Authority by NYCC, which complies with required Treasury Management Practices, including TMP10 'Training & Qualifications'; the Authority does not have a separate requirement to develop in-house investment management skills.

TREASURY MANAGEMENT STRATEGY AND STATEMENT 2023/24

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
    - 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 2023/24 TO 2025/26

2. 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 amount so determined is termed the **Affordable Borrowing Limit** (ABL); this covers loans and other forms of liability, such as credit 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.

PRUDENTIAL INDICATORS FOR 2023/24 TO 2025/26

4. 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 2021/22 and the probable figure for 2022/23 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 <u>possible</u> borrowing as set out in the later indicators, the effective percentage is NIL. This is now the case for the years to and including

2025/26, 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	%
2021/22	actual	0.00%
2022/23	probable	0.00%
2023/24	estimate	0.00%
2024/25	estimate	0.00%
2025/26	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.

Year	Basis	£k
2021/22	actual	28
2022/23	probable	139
2023/24	estimate	205
2024/25	estimate	241
2025/26	estimate	50

(iii) **Capital Financing Requirement and Forecast**

The Capital Financing Requirement defines the underlying need to borrow to pay for capital spending.

Year	Basis	£k
2021/22	actual	28
2022/23	probable	139
2023/24	estimate	205
2024/25	estimate	241
2025/26	estimate	50

These figures relate to the option of funding capital purchases (including vehicle leases) by borrowing. However, the level of debt outstanding needs to be adjusted for the Minimum Revenue Provision (MRP). This MRP applies to debt outstanding at the end of each financial year and therefore the MRP charge would be applicable from 2023/24 onwards and the capital financing requirement will be reduced accordingly. Note that there is no current outstanding debt, and so no current value to our MRP.

(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; unchanged from previous years) 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
2023/24	205	0.0	205
2024/25	241	0.0	241
2025/26	50	0.0	50

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 £389k will act as this limit for 2023/24.

(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. 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	Borrowing Limit £k	Other Long Term Liabilities, £k	Total £k
2023/24	455	0.0	455
2024/25	491	0.0	491
2025/26	300	0.0	300

(vi) **Actual External Debt**

This Authority had no external debt at 14 March 2023, and this position is unlikely to change by 31 March 2023.

(vii) **CIPFA Code Compliance**

The CIPFA Code of Practice on Treasury Management in the Public Services was updated in December 2021 and has been adopted in preparing this Strategy.

(viii) **Interest Rate Exposures**

If the Authority were to borrow during 2023/24, 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 2023/24, 2024/25 and 2025/26 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 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 2025/26.

(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	%
2021/22	Actual	0.09%
2022/23	Probable	0.10%
2023/24	Estimate	0.06%
2024/25	Estimate	0.04%

(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 (10 years). The Authority currently has no loan portfolio but calculation of this benchmark will follow if any loans are taken out. At the date of this report, the Authority had no plans to borrow.

THE CURRENT TREASURY POSITION

5. As at 31 December 2022, the Authority's Treasury position was as below

Item	Principal at 31 Dec 2022, £'000	Average return 2022/23, to 31 Dec. %
Debt Outstanding		
None	0	
Investments		
Managed by NYCC	4,881	1.65

*This figure reflects the principal held as at 31 December 2022. The average daily balance from 1 April 2021 to 31 December 2022 was £4.8m.

The Authority has made a series of loans to, and 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 £96k (£20k loans, £76k shares). These investments are held for service delivery purposes.

THE BORROWING REQUIREMENT AND BORROWING LIMITS

6. The **Operational Boundary** is an estimate of the most likely, prudent scenario for external debt during 2023/24. 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.

7. 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.

8. The agreed **Operational Boundaries** and **Authorised Limits** for external debt up to 2025/26 are as follows:

	Item	**2023/24 estimate £k**	**2024/25 estimate £k**	**2025/26 estimate £k**
	Debt Outstanding at the start of the Year	0	455	491
+	Internal or External borrowing requirements	205	241	50
-	MRP + charged to revenue	-0	-455	-491
=	**Operational Boundary for year**	205	241	50
+	**Provision to cover unusual cash movements**	250	250	250
=	**Authorised Limit for year**	**455**	**491**	**300**

BORROWING POLICY

9. 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.

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

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

12. 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.

13. 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.

14. 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

15. The Bank of England increased interest rates from 3.5% to 4% in February 2023. Predictions show CPI inflation falling back sharply from its current very elevated level, of 10.5% in December. Annual CPI inflation is expected to fall to around 4% towards the end of this year. In the latest modal forecast, the Bank Rate that rises to around 4½% in mid-2023, falls back to just over 3¼% in three years’ time.

16. These projections are broadly in line with our budget for 2023/24, which assumes an average interest rate for the year of 4%. Note, however, that the budget figure is based on our investments (via NYCC) outperforming BoE base rates by a small margin, which they invariably do. Any increase in the interest rate we actually achieve on our investments would add to our expected income, at the rate of ~£4k per 0.1% return in excess of 4%. All of these projections are subject to the wider international situation.

THE BORROWING STRATEGY

17. 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

18. The Authority has its own cash balances. In 2022/23 to December 2022 the value for the average daily cash balance was £4.881m. This sum is made up of ‘cash’ items (including creditors), reserves, balances and provisions.

19. 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 PROVISION POLICY

20. The Authority is required to set a prudent Minimum Revenue Provision (MRP) for the coming year, to enable it to redeem any debt liability over a period equivalent to the useful life of the capital asset being financed. An annual review of MRP policy is required, and forms part of this report (see below).

21. The policy for 2023/24 takes into account the fact that the Authority has no outstanding debt. The proposed policy is unaltered from last year, as follows.

22. 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.

23. 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)

24. The Authority's investment management arrangement with NYCC covers its investment requirements. The net return achieved will be monitored by the Treasurer, allowing the position relative to budget assumptions to be reviewed. NYCC 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 NYCC. A copy of the document is available for members on request. The information below outlines the strategy for investments.

25. 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.

26. The Authority's temporarily-surplus funds are pooled with NYCC'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 NYCC's Approved Lending (= investing) List is available on request.

CAPITAL STRATEGY 2023/24

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.

   Subsequent expenditure on existing assets is also classified as capital expenditure if these two 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 funding requirement is summarised below. Named capital reserves have been created to allocate funding in line with the total values of these three commitments, as follows:

	2022/23	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**Total**
	£'000	£'000	£'000	£'000	£'000	£'000
Property	119	100	15	20	95	**349**
IT	80	84	29	21	38	**252**
Plant & Equipment	6	57	6	26	6	**101**
Total	**205**	**241**	**50**	**67**	**139**	**702**

8. The Authority also holds investments (loans and 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 £96k (£20k loans, £76k shares); expenditure on these investments was incurred in previous years.

<u>Capital Financing Requirement and borrowing</u>

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 2023/24 at Annex 2, 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
14 March 2023