Audit and Risk Committee

08 February 2022
Agenda item number 6

Investment strategy and performance report 2021/22 and draft capital treasury and investment strategy 2022/23

Report by Director of Finance

Summary

This report contains two items:

i. Details of the Broads Authority's investment of surplus cash, including the investment principles adopted and performance during the nine months to 31 December 2021.

ii. The Draft Capital, Treasury and Investment Strategy 2022/23.

Recommendation

i. To note the current arrangements regarding the investment of surplus cash.

ii. To recommend the Draft Capital, Treasury and Investment Strategy to the Broads Authority for approval.

1. Introduction

1.1. It was previously agreed that a report on the performance of the Broads Authority's investments would be presented to the Audit and Risk Committee, with a fuller year-end analysis' at the July meeting, and a mid-year progress report at the appropriate half year meeting.

2. Investment principles and performance

2.1. The investment of surplus cash is governed by the Authority's Treasury and Annual Investment Strategy 2021/22. Details of this strategy renewal are in paragraph 3.1.

2.2. As detailed in the strategy, the Authority's primary concern is to safeguard its capital and the liquidity of its investments. Surplus cash sums are monitored on a weekly basis by the Authority's Finance staff, and transferred as and when required to appropriate institutions listed in the Strategy. Cash flow requirements can result in transfers in both directions as the year progresses. The key facts for the nine months to 31 December 2021 were as shown in Table 1.

Table 1
Investment Holdings 2021/22

Type	Opening Balance £	Closing Balance £	Highest Sum £	Lowest Sum £
Instant Access	2,509	646	3,253	646
95 Day Notice Account	2,500	4,500	4,500	2,500
32 Day Notice Account	503	503	503	503

2.3. There has been one transfer in June 2021 to the 95-day notice account (£2 million). This was assessed as the best possible interest rate achievable at that date. The current portfolio means that interest income is forecast to be below budget predictions following the impact of COVID-19.

2.4. The figures for the previous year (2020/21) were as shown in Table 2.

Table 2
Investment Holdings 2020/21

Type	Opening Balance £	Closing Balance £	Highest Sum £	Lowest Sum £
Instant Access	593	2,509	2,509	593
Fixed Term	2,000	0	2,000	0
95 Day Notice Account	1,500	2,500	2,500	1,500
32 Day Notice Account	502	503	503	502

2.5. It should be noted that the automatic transfer between the instant access and the current account seeks to maintain a current account balance of £1,000. This means that the balance within the instant access is not available in its entirety for investment. This is particular important for the Heritage Lottery Fund and CANAPE projects, which are claimed either three or six months in arrears. Payment can then be a further three to six months after submission.

2.6. Interest earned to the end of December is £4,470.01 and is forecast to increase to £7,000 by the end of March. This is based on interest rates that range from 0.01% to 0.2%.

2.7. The amount of interest received during 2020/21 was £22,334.14 based on interest rates ranging from 0.01% to 1.1%. Forecast interest for 2020/21 was £22,000.

3. Draft Capital, Treasury and Annual Investment Strategy 2022/23

3.1. The Prudential Code requires local authorities to produce an Annual Investment and Capital Financing (borrowing) strategy. This must be approved before the start of each financial year, by the Broads Authority.

3.2. During December 2021 both the Prudential Code and Treasury Management in the public services guidance published by CIPFA was updated. When the guidance for public services was published it was intended to be supported by Treasury Management in the Public Services: Guidance Notes for Local Authorities, however the publication of this document has been delayed until the end of January. At this stage it is unclear if the guidance for smaller public service organisations published in 2014 will also be updated. The 2021 publication of the Prudential Code applies with immediate effect and introduces the requirement to report quarterly against the prudential indicators set out in the investment strategy, however authorities may defer the revised reporting requirements to 2023/24.

3.3. Any amendments required from the publication will be incorporated into the version presented to the Broads Authority in March. The draft strategy at Appendix 1 incorporates the latest CIPFA guidance from its Capital Finance in Local Authorities Guidance Notes (2021). The capital strategy is on pages 3-6.

3.4. The Treasury Strategy, which is on pages 7-13. Minor changes have been made to reflect the updated guidance on Treasury management practices and references to the Chief Financial Officer have been updated to the Director of Finance.

3.5. The 2021 Prudential Code requires investments to be analysed between investments for treasury management, service and commercial purposes. The Authority holds investments purely for Treasury management purposes. This is where investments arise from cashflows and will ultimately represent balances that need to be invested until the cash is required for use in the course of business. Investments for service purposes are generally linked to those authorities who provide housing, regeneration and local infrastructure. Investments for commercial purposes are held primarily for financial return such as commercial property.

3.6. The annual investment strategy has been updated to reflect current holdings in paragraph 3.1. Paragraph 4.2 sees the forecast of the Authority's Capital Financing Requirement (CFR) over the next three years. The CFR measures the amount of capital spending that has not yet been financed by capital receipts, capital grants or contributions from revenue income. Although historically reported as part of the Authority's Statement of Accounts the code introduces its inclusion here. Paragraph 4.3 highlights the impact the introduction of IFRS 16 Leases will have on the Authority. Where leases are included under the adoption of IFRS 16, it will increase the Authority's assets as well as its other long-term liabilities (borrowings). As a result, the authorised level of capital expenditure and debt may need to increase for 2022/23 and beyond. A detailed analysis of the effect will be produced as part of the Statement of Accounts. Where amounts need to be revised as part of this analysis, these will be reported back to the Broads Authority at the earliest opportunity.

3.7. The Capital Receipts Reserve balance is set out in paragraph 4.4. The reserve can be used to fund capital expenditure or the repayment of debt. Significant improvements to existing (new facilities) or the purchase of new sites/assets may be funded from this reserve, subject to member approval.

3.8. Members' views are sought on the draft prior to the Broads Authority meeting on 18 March 2022.

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Date of report: 26 January 2022

Appendix 1 – Draft Capital Treasury and Investment Strategy 2022/23

Draft Capital, treasury and investment strategy 2022/23

Contents

Capital Strategy

1. Introduction

1.1. The update of CIPFA's Prudential Code in December 2021 and Capital Finance guidance notes in September 2018 introduced the need for Local Authorities to have a Capital Strategy from 2019/20. It is intended to provide a high-level overview of how capital expenditure; capital financing and treasury management contribute to the provision of services and how the risks of these activities are managed and what impact it may have for future financial sustainability.

1.2. The Capital Strategy will be renewed annually. Monitoring and approval of the strategy will remain with the Authority.

1.3. The Capital Strategy provides a link between The Broads Plan, Strategic Priorities, the Asset Management Strategy and the Financial Strategy.

1.4. The current Broads Plan covers the period of 2017-2022. The plan is currently undergoing a review for the next period. It is a partnership strategy for the whole of the Broads and sets out guiding actions not just for the Authority but all partners. Its success very much depends on a common vision, strong partnership working and the best use of shared resources. The plan is available on the website including a six-monthly newsletter which provides updates on progress.

1.5. The Authority's Strategic priorities are set annually by the members in line with objectives in the Broads Plan. Progress against the Strategic priorities is reported regularly to the Broads Authority and details can also be found on the website.

1.6. The Asset Management Strategy sets out the Authority's practices and procedures which have been established to ensure that the Authority's land, property and other assets are managed and maintained as effectively as possible. It also sets out a series of key principles which will be adhered to in the management of the asset base and guidance on the procurement and disposal of land and property. A copy is also available on the website.

1.7. The annual Budget and Financial Strategy includes capital expenditure for the forthcoming year and the following two financial years. The earmarked reserves appendix identifies what capital expenditure will be funded in each year. Although the later years are based on the replacement programmes the last two financial years should be seen as estimates. These estimates maybe updated as a result of refining the costings during budget setting for those years.

2. Core principles

2.1. All capital expenditure and investment decisions will be affordable, proportionate, prudent and sustainable.

2.2. Decisions to invest or dispose of capital items will comply with the Authority's delegated powers, standing orders and financial regulations.

2.3. Capital expenditure will reflect the aspirations set out in the Broads Plan, Strategic Priorities and the authority's environmental and carbon policies.

2.4. New areas of major capital expenditure (£250,000 plus) will be supported by a fully costed appraisal over the lifetime of the scheme and incorporated into the annual budget. Risks will be fully considered, not just during initiation but over the lifetime of the asset including its potential disposal.

3. Capital expenditure

3.1. Whilst other Local Authorities have large capital expenditure programmes to fund housing and regeneration projects the Authority's expenditure remains modest and focuses on operational need. Items of major capital expenditure are identified through the Asset Management Strategy replacement programme and as part of the budget setting process. Items of expenditure over £5,000 that have a useful economic life of more than one financial year are classified as capital expenditure.

3.2. Capital Expenditure can be funded via a number of methods. These include revenue budgets, earmarked reserves, finance leases, long term borrowing and capital receipts. All capital expenditure on physical assets is held on the Balance Sheet under Property, Plant and Equipment. At the end of 2020/10 the value of these items was £4.7m, of which £85k was funded by finance leases.

3.3. Traditionally revenue budgets tend to fund the smaller items such as tools and equipment. However larger Navigation items can be funded through revenue as a result of tolls setting. For 2018/19 the level of tolls was increased to facilitate the purchase of Tree Shears. In 2017/18 the moorings maintenance programme was rescheduled to enable the purchase of Acle Bridge moorings from revenue. The ongoing maintenance of assets is funded by revenue budgets and is not capitalised. Cost estimates are made on the basis of forecast maintenance required to keep assets in operational use.

3.4. Through identification of the Asset Management Strategy annual contributions are made from the revenue budget to the earmarked reserves to cover the cost of future replacements. Balances are built up and then drawn down in future years. Expenditure from the earmarked reserves is considered annually alongside the revenue budget, with a forecast for the following two financial years. Replacement costs are regularly monitored to ensure that the contributions remain appropriate to the earmarked reserves. Where adjustments are required this will be forward to the Authority as part of the annual budget setting process.

3.5. Although long term borrowing remains an option to the Authority it is not regularly utilised for capital expenditure. At the end of 2020/21 the balance sheet contained one long term loan which had an outstanding balance of £109k. Further details can be found in the Treasury Management Policy Statement on borrowing principles (section 2.3).

3.6. The Authority currently holds one capital receipt following the disposal of Ludham Fieldbase in August 2018. Capital receipts can be used to fund new capital expenditure or the repayment of debt. It is currently being held on the balance sheet. New long-term capital projects will consider utilising this balance.

4. Short, medium and long term capital priorities

Short and medium term priorities (1-3 Years)

4.1. The Authority's short to medium term priorities is delivering the asset replacements detailed within the Asset Management Strategy and Earmarked reserves. The focus is on continued operations but with the potential to remain flexible as new opportunities for efficient working arise or if urgent items arise. Replacement items to be funded over the next three years include vehicles, excavators, wherries and Ranger launches. All of which will be funded from the Earmarked reserves.

4.2. It is expected that during the short to medium term that the potential options around Visitor Services and facilities will be explored. As options for improvements at existing site or new sites are developed these will be brought back to members with a business case. The key issue for new sites remains initial funding which will be explored through potential funding bids and partnership. As this progresses papers highlighting risks will be taken to the Authority for members to make the final decision.

4.3. The use of reserves other than earmarked reserves will require approval from the Authority. The impact of loss of investment income will need to be offset by the benefits of such a capital project.

Long term priorities (4 years plus)

4.4. The Authority's long-term priorities will be shaped by future funding agreements received from DEFRA in the form of National Park Grant and potential toll increases. Reductions to either forms of income could impact the potential to replace assets as they near the end of their useful lives and ongoing maintenance programmes. Long term priorities, will need to ensure that they will generate income to fund their upkeep and any reduction in investment income.

4.5. Larger items of equipment such as the wherries and launches can be operational anywhere between 20 and 50 years. It is essential that their ongoing maintenance is incorporated into the revenue budget and the contributions to the earmarked reserves continue.

4.6. The moorings refurbishment programme remains a key area of maintenance to ensure that moorings remain safe to use by the public. Where the Authority is responsible for future piling and upkeep it will seek to own sites or minimise rental payments in recognition for this ongoing responsibility.

5. Risk appetite

5.1. The Authority's risk appetite towards capital expenditure remains low and will be based around the core principles. Funding of capital items will continue mainly through existing resources but on occasion finance leases or other borrowing maybe appropriate. Borrowing principles are set out in the Treasury Strategy (section 2.2) and the forecast of capital expenditure and borrowing limits is in the Investment Strategy (section 4).

5.2. The Authority recognises the importance of ensuring that all staff involved in the capital strategy are equipped to undertake the duties and responsibilities allocated to them. Recruitment of vacant posts will reflect this position and training opportunities will be identified through the annual Individual Performance Review (IPR).

5.3. It is recognised decisions surrounding land and buildings carry a higher degree of risk. Where opportunities arise of acquisition or disposal the Authority will make use of its property consultants and legal advisers to ensure these risks are fully understood.

Treasury strategy

1. Introduction

1.1. Both CIPFA's Treasury Management Code of Practice (2021 Edition) and the Prudential Code requires the Authority to produce a strategy which explains the Authority's borrowing and investment activities and the effective management and control of those risks. This strategy seeks to incorporate the best practice recommendations from this guidance whilst also bearing in mind the Guidance for Smaller Public Service Organisations (2014 Edition).

2. Treasury management policy statement

2.1. The Authority defines its treasury management activities as:

- The Management of the organisation's borrowing, investments and cash flows, including its banking, money market and capital market transactions; the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those.

- The Authority regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

- The Authority acknowledges that effective treasury management will provide support towards the achievement of its strategic objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance management techniques, within the context of effective risk management.

Borrowing principles

2.2. The Authority intends to fund all of its capital expenditure from either its earmarked reserves, capital receipts or from its revenue accounts. However if any of those accounts hold insufficient funds borrowing maybe considered.

2.3. The Authority currently has one long term loan from the Public Works Loan Board (PWLB) that was utilised to purchase the dredging operation from May Gurney in November 2007 for £290,000. This is to be paid over a 20-year period at a fixed interest rate of 4.82%. Repayments are incorporated into the revenue budget. The Authority also has the option to enter into finance leases to purchase capital items. Typically this has included the purchase of large pieces of equipment such as the

JCB, the Doosan excavator and the concrete pump. International Financial Reporting Standards include these types of leases as borrowing due to the risk and reward of the asset transferring to the Authority. During 2020 the Authority took out a short-term loan from the PWLB for £105,000 to fund the purchase of a new excavator. This is to be repaid over 5 years at a fixed interest rate of 2%. This was considered the most cost-effective form of borrowing when compared to a finance lease.

2.4. If additional borrowing was deemed necessary following committee consultation then the Authority would need to minimise the costs to the revenue budgets including future year repayments and undertake new borrowing at the cheapest cost.

Investment principles

2.5. The Authority's main objective is the prudent investment of its treasury balances. Investments are made purely for treasury management purposes, not to support service and commercial purposes. The main priorities are the security of capital and the liquidity of its investments. It will be only after these have been satisfied that it will aim to achieve optimum return on its investments. The Authority will not engage in borrowing purely to invest or to on-lend to make a return. Such activity is considered unlawful.

Treasury management practices

Risk management

2.6. The Authority adopts a low risk appetite to its treasury management but is not totally risk averse. It will invest with other institutions with appropriate credit ratings rather than just making use of government deposits. If additional borrowing should be required it will seek to borrow on a fixed rate basis to build in assurance for future year liabilities.

2.7. As part of the Authority's corporate and directorate risk registers risks are monitored and managed on a regular basis. This includes investment risks. Corporate risks are reported to every meeting of the Audit and Risk Committee. Responsible Officers review these throughout the year and are discussed at Directorate meetings.

2.8. Risks specific to treasury management include:

- **Credit and Counterparty:** The main objective of the Authority is to secure the principal sum it invests and therefore takes a prudent approach as to whom it invests funds with. This is limited to organisations who meet minimum criteria and is covered in more detail within the investment strategy. The Authority also faces this risk through the default of its debtors. Payment terms are limited to 30 days or where appropriate payment is asked for in advance. Corrective action is taken as required to secure outstanding debts. Bad debts are kept to a minimum.

- **Liquidity:** The Authority will maintain adequate but not excessive cash balances and borrowing arrangements to enable it to achieve its strategic objectives. The Authority will only borrow in advance of need where there is a clear business case to do so and will only do so for the current capital programme. Debt repayments are included in the annual revenue budget.

- **Interest rate:** The Authority will manage its exposure to fluctuations to interest rate risks in line with its budgets. It will achieve this through the prudent use of its approved instruments, methods and techniques to create stability and certainty of costs and revenues, whilst remaining sufficient flexibility to take advantage of unexpected changes to interest rates. The Authority will limit fixed term deposits to a period of no longer than one year to limit risks to liquidity.

- **Exchange rate:** The Authority will manage its exposure to fluctuations in exchange rates to minimise any impact on its budgeted income/expenditure levels. External advice will be sought to manage this in the most appropriate way as it could have a significant impact; this is particularly important in regards to EU grants.

- **Inflation:** The Authority will keep under review the sensitivity of its treasury assets and liabilities to inflation, and will seek to manage the risk accordingly in the context of the whole Authority's inflation exposures.

- **Re-financing:** If the Authority was in a position to re-finance its borrowing it will ensure that such arrangements are negotiated, structured and documented and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for renewal or re-financing. These will be competitive and as favourable to the organisation that can be reasonably achieved in the light of market conditions at the time. It will manage its relationships with its counterparties to secure this objective and will avoid the over reliance on any one source of funding if this might jeopardise achievement of the above.

- **Legal and regulatory:** The Authority will ensure all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. The Authority recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as reasonable to do so, will seek to minimise any adverse risks.

- **Operational risk, including fraud, error and corruption:** The Authority will ensure that it has identified the circumstances which may expose it to the risk of loss through inadequate or failed internal processes, people and systems or from external events. It will employ suitable systems and procedures to ensure segregation of duties, and will maintain effective contingency management arrangements to do so. In addition, the Authority holds Fidelity Guarantee Insurance with Zurich Municipal as part of its overall insurance management arrangements.
- **Price:** The Authority will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests, and will accordingly seek to protect itself from such fluctuations.

Performance measurement

2.9. Treasury management will be subject to regular review of its value for money and if other alternative methods of delivery will become more appropriate. The Audit and Risk Committee will receive reports twice a year detailing performance. It will also review the Treasury Strategy prior to the Authority meeting which remains responsible for its adoption. Further details of those performance measures are included within the Investment Strategy.

Decision making and analysis

2.10. The Authority will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps have been taken to ensure that all issues relevant to those decisions were taken into account at that time.

Approved instruments, methods and techniques

2.11. The Authority will undertake its treasury management activities by only employing those instruments, methods and techniques as detailed in the Investment Strategy. The Authority does not intend to use derivative instruments to manage risk. However if it chose to do so in the future it would seek proper advice and will consider that advice when entering into arrangements to use such products to ensure that it fully understands those products.

Organisation, clarity & segregation of responsibilities, and dealing arrangements

2.12. In order for there to be effective control and risk management it is essential that there is clear segregation of duties for the reduction of the risk of fraud and error and for the pursuit of optimum performance. This will be subject to regular review by Internal Audit as part of its key control test. If at any time there is a lack of resources that does not allow this, it will be reported to the Audit and Risk

Committee. Such duties are detailed in the Finance department's job descriptions and are reviewed annually.

2.13. The Director of Finance is responsible for the development of the strategy, whilst cash flow monitoring is undertaken by the Senior Finance Assistant and reviewed by the Director of Finance. The Director of Finance will remain responsible for identifying appropriate counter parties in line with agreed criteria. Funds to be transferred will be carried out by the Senior Finance Assistant and Financial Accountant following approval by the Director of Finance. All funds will be automatically transferred back into the Authority's main bank account. The Director of Finance will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds.

Reporting requirements and management information

2.14. The Director of Finance will prepare regular reports for consideration on the implementation of its policies, the effects of decisions taken and transactions executed. The reports will also consider the impact of any changes on the budget or other regulatory, economic and market factors.

2.15. The Broads Authority will receive an annual report on the strategy and the plan for the coming year. The Audit and Risk Committee will review this strategy and receive a mid-year review and an annual report on activity over the last year. Any impact on investment income will be reported throughout the year to the Broads Authority as part of its Finance Performance and Direction reports.

Budgeting, accounting and audit arrangements

2.16. The Director of Finance will prepare the annual budget which will include the costs of the treasury function as well as the investment income as deemed by statute and regulation. The Director of Finance will be responsible for exercising control over these items and will report any changes as required as detailed above.

This Authority will account for its treasury management activities, decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being.

Cash and cash flow management

2.17. The Director of Finance will be responsible for all monies in the hands of the Authority and will be reviewed for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis to ensure that liquidity risk is monitored. This will be undertaken on a weekly basis by the Senior Finance Assistant and reviewed by the Director of Finance. This weekly forecast will also look at predictions for the current month. Annual cash flow predictions will be prepared by the Director of Finance following preparation of the annual budget.

Money laundering

2.18. The Authority is aware that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Further details can be found in the Authority's Counter Fraud, Bribery and Corruption policy and its Financial Regulations. Copies are available to all staff on the Intranet.

Training and qualifications

2.19. The Authority recognises the importance of ensuring that all staff involved in the treasury management are equipped to undertake the duties and responsibilities allocated to them. Recruitment of vacant posts will reflect this position and training opportunities will be identified through the annual Individual Performance Review (IPR).

2.20. The Director of Finance will ensure that the Audit and Risk Committee who have treasury management/scrutiny responsibilities have access to training relevant to their needs and responsibilities.

2.21. Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.

Use of external providers

2.22. The Authority recognises that responsibility for treasury management decisions remain with the Authority at all times. It recognises that there may be value in employing external providers in order to access specialist skills and resources. However the use of external providers is not currently used based on the Authority's limited amount of surplus funds and the costs associated. If this position changed it would ensure a full evaluation had been undertaken as to the costs and benefits through the Authority's Standing Orders.

Corporate Governance

2.23. Treasury Management activities will be undertaken with openness and transparency, honesty, integrity and accountability. This together with the other arrangements detailed in the Investment Strategy are considered vital to the achievement of proper corporate governance in treasury management. The Director of Finance will monitor and report upon the effectiveness of these arrangements.

Management practices for non-treasury investments

2.24. The Authority recognises that investment in other financial assets and property primarily for financial return, taken for non-treasury management purposes, requires careful investment management. Such activity includes loans supporting service outcomes, investments in subsidiaries, and investment property portfolios.

2.25. The Authority will ensure that all investments are covered in the investment strategy, and will set out, where relevant, the Authority's risk appetite and specific policies and arrangements for non-treasury investments. It will be recognised that the risk appetite for these activities may differ from that for treasury management. Where the Authority holds non-treasury investments a schedule of these types of investments will be included.

Annual Investment Strategy 2022/23

This strategy builds on those principles and practices as laid out in the Treasury Management Strategy. It continues to give priority to the security of capital and liquidity before returns are considered.

The Authority will continue to invest in Sterling and will consider the bodies environmental, social and governance (ESG) practices.

1. Specified investment

1.1. These investments are made in Sterling and have a duration of 1 year or less. Typically, these are low risk investments due to being made with high credit rating bodies, examples include:

- UK government or local authorities;
- UK/European banks and building societies
- Money Market funds (AAA rated by credit rating agency)
- Debt Management Agency deposit facility

1.2. This list is not exhaustive but highlights where the Authority is most likely to place its funds.

1.3. To mitigate against the risks of credit and counterparty the Authority will only seek investments with bodies that have at least a short-term rating of F-1 as stated by Fitch credit ratings.

1.4. The Authority will monitor these ratings monthly through online credit watches and use these to determine any new investments. This may mean those failing to meet the criteria will be removed from the list, whilst those new counterparties who do may be added. Other market information including the financial press will be monitored.

2. Non-specified investments

2.1. These investments tend to be any other type of permitted investment which have durations of more than a year. This also includes equity-type investments. At this point the Authority does not consider these types of investments as appropriate but may do so in the future if surplus funds permit.

2.2. Longer term investments will only be considered with those institutions that have a Fitch credit rating of A (+/-). In addition institutions ethical and environmental activities will also be taken into consideration to compliment the Authority's strategic objectives, including responding to climate change and sustainability.

2.3. The Authority will seek proper advice and will consider that advice when entering into arrangements on derivatives to ensure that it fully understands those products.

3. Liquidity

3.1. The Authority will seek to try and spread its investments to avoid over reliance on one institution. This is currently not being achieved and all surplus funds are being held at the Authority's current account provider (Barclays. The impact of COVID-19 has meant that interest rates have plummeted and funds are now held at Barclays to secure the best interest rates available. Funds held at Barclays are automatically swept each day into its Business Premium. This facility is instant access. Based on its cash flow forecasts the Authority anticipates that its cash balances will range between £5m and £7m.

Current Holdings as at 31/12/21

Counterparty	Holding/ Investment	Interest rate	Investment date	Maturity date
Barclays Notice Account	4,500,000	Base rate + 0.2%	n/a	95 days' notice
Barclays Notice Account	503,000	Base rate – 0.05%	n/a	32 days' notice
Barclays Premium Account	646,000	0.01%	n/a	Instant access

4. Capital financing (borrowing) principles

4.1. The following table shows the current forecast for capital expenditure for the next three years. Commentary is also provided below.

Prudential indicator 2022/23-2024/25

Prudential indicator	2022/23	2023/24	2024/25
Estimate of capital expenditure	£550,000	£550,000	£200,000
Authorised limit for external debt	£500,000	£500,000	£500,000
Operational Boundary	£400,000	£400,000	£400,000

4.2. The Capital Financing Requirement (CFR) is reported annually in the Authority's statement of accounts. It measures the amount of capital spending that has not yet been financed by capital receipts, capital grants or contributions from revenue income. The table below sets out the estimate CFR for the next three years.

Capital Financing Requirement

Movement	2022/23	2023/24	2024/25
Opening CFR 01/04	£190,710	£342,850	£284,200
Capital expenditure	£550,000	£550,000	£200,000
Capital expenditure funded from revenue	(£442,000)	(£550,000)	(£200,000)
Repayment of debt	(£63,860)	(£58,650)	(£56,600)
New debt (JCB)	£108,000	0	0
Closing CFR 31/03	£342,850	£284,200	£227,600

4.3. Although the Authority's forecast level of debt is set to reduce over the next 3 years it is considered prudent to maintain the existing limits due to the introduction of IFRS 16. This new accounting standard will be adopted from 2022/23 and will impact on leases held by the Authority. The introduction will also increase the Capital Financing Requirement (CFR). Currently only Finance Lease liabilities (where the risk and reward are transferred to the Authority) are held on the balance sheet. Operating leases (where the risk and reward does not transfer to the Authority) are currently not included. The introduction of IFRS 16 removes the distinction between the two and is based on right of use. The most significant Operating Lease for the Authority is Yare House.

4.4. The use of reserves to finance capital expenditure will have an impact on level of investments. However budgeted contributions to earmarked reserves should mitigate this as well as the sale of assets. The table below shows estimates of year end balances for each resource.

Estimated year end reserves 2022/23-2024/25

Estimated Year-End reserves	2022/23	2023/24	2024/25
General and Navigation Reserves	£1,087,000	£833,000	£624,000
Earmarked Reserves	£2,570,000	£2,623,000	£2,959,000
Capital Receipts Reserve	£405,000	£405,000	£405,000
Total Investments 31 March	£4,062,000	£4,861,000	£3,988,000

Affordability

4.5. The prudential code indicator for affordability asks the Authority to estimate the ratio of financing costs to net revenue stream. The Authority's current borrowing consists of the Public Works Loan Board (PWLB) loans and Finance leases. The first PWLB Loan was to finance the acquisition of the dredging operation from May Gurney, the financing costs have a zero effect on the bottom line of navigation income and expenditure as the dredging operation (financing costs and ongoing running cost including any additional capital expenditure) are less than or equal to the cost paid to contract out to May Gurney in the past. Finance lease repayments are also charged directly to the revenue budget. Whilst both of these remain less than 0.4% of National Park Grant and Navigation income it is felt that this indicator is not appropriate for use by the Authority in this instance. Any increases to debt will require this indicator to be reviewed.

External debt

4.6. Prudential indicators in respect of external debt must be set and revised taking into account their affordability. It is through this means that the objective of ensuring that external debt is kept within sustainable, prudent limits is addressed year on year.

4.7. Therefore, the Authority will at this time only borrow long term to finance the capital expenditure incurred on the acquisition of the dredging operation from May Gurney.

4.8. Actual debt as at 31 March 2021 was £271,530 which consists of the PWLB loans and finance leases.

Authorised limit

4.9. The Authority will set for the forthcoming financial year and the following two financial years an authorised limit for its total external debt, separately identifying borrowing from other long-term liabilities (excluding pension liability and government grants deferred). It should be noted that the Authority does not have any other long-term liabilities at present or plans to have any in the future. This prudential indicator is referred to as the authorised limit and is shown in the table above.

Operational Boundary

4.10. The authority will set for the forthcoming financial year and the following two financial years an operational boundary for its total external debt. This Prudential indicator is referred to as the operational boundary and is shown in the table above. The operational boundary is based on the Authority's estimate of most likely, i.e. prudent, but not worst case, scenario.

Capital expenditure

4.11. The Authority will make reasonable estimates of the total of capital expenditure that it plans to incur during the forthcoming financial year and at least the following two financial years. This Prudential indicator will be referred to as estimate of capital expenditure and is included in the table above.

Treasury management

4.12. The Prudential Code requires authorities to set upper limits for its exposure to the effects of changes in interest rates. However, as explained above under paragraph 4.5, the current borrowing costs will be not be an additional cost to the Authority. The Authority has borrowed at a fixed interest rate, thus reducing its exposure to changes in interest rates. This Prudential indicator is therefore not considered necessary in this instance.

4.13. There remains a small risk to the Authority in using fixed term deposits that interest rates may increase in the short term. However, given the historic low interest rates on offer following the financial crisis any increase in rates is likely to be slow. By minimising fixed term deposits to a minimum of 1 year and staggering them it will allow the Authority to take advantage of any increase as funds become available for re-investment. Funds in instant access will be able to take advantage of any increase in rates.

Maturity structure of borrowing

4.14. The Prudential Code requires authorities to set upper and lower limits with respect to the maturity structure of its borrowing. However, as the Authority only has a single long-term loan this indicator is not considered relevant.

5. Non-treasury investments

5.1. Previously the Authority held one non-treasury investment in the form of an Investment Property (Ludham Fieldbase). This was disposed of in August 2018, the proceeds of which are currently held in the Capital Receipts Reserve. There are currently no plans for additional non-treasury investments.

6. End of year investment and capital financing report

6.1. The Authority will provide a report on its investments and capital financing activity at the end of the financial year, as part of its final accounts reporting procedure.