**TREASURY AND INVESTMENT STRATEGY 2022/23**

Minimum Revenue Provision Policy Statement and Annual Investment Strategy



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# INTRODUCTION

Background

The Authority is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Authority’s low risk appetite, providing adequate liquidity initially before considering investment return.

The second main function of the treasury management service is the funding of the Authority’s capital plans. These capital plans provide a guide to the borrowing need of the Authority, essentially the longer term cash flow planning, to ensure that the Authority can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Authority risk or cost objectives.

The contribution the treasury management function makes to the Authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either day-to-day revenue or expenditure for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

CIPFA defines treasury management as:

*“The management of the local authority’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”*

This Authority has not engaged in any commercial investments and has no non-treasury investments.

Reporting requirements

Capital Strategy

The CIPFA 2017 Prudential and Treasury Management Codes require all local authorities to prepare an additional report, a capital strategy report, which will provide the following:

* a high-level long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
* an overview of how the associated risk is managed
* the implications for future financial sustainability

The aim of this capital strategy is to ensure that all elected members on the Authority fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite. The capital strategy is being reported separately in the form of the Strategic Asset Investment Framework.

Treasury Management reporting

The Authority is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.

***Prudential and treasury indicators and treasury strategy*** (this report) - The first, and most important report covers:

1. the capital plans (including prudential indicators);
2. a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
3. the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and
4. an investment strategy (the parameters on how investments are to be managed).

***A mid-year treasury management report*** – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision.

***An annual treasury report*** – This is a backward looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

**Scrutiny**

The areas above are required to be adequately scrutinised before being recommended to the Authority. This role is undertaken by the Audit and Governance Committee, who on a quarterly basis review capital expenditure and interest estimates. Additionally, on an annual basis they review the underlying assumptions which support the annual treasury strategy and strategic asset investment framework.

* 1. Treasury Management Strategy for 2022/23

The strategy for 2022/23 covers two main areas:

**Capital issues**

1. the capital expenditure plans and the associated prudential indicators;
2. the minimum revenue provision (MRP) policy.

**Treasury management issues**

1. the current treasury position;
2. treasury indicators which limit the treasury risk and activities of the Authority;
3. prospects for interest rates;
4. the borrowing strategy;
5. policy on borrowing in advance of need;
6. debt rescheduling;
7. the investment strategy;
8. creditworthiness policy; and
9. policy on use of external service providers.

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, MHCLG MRP Guidance, the CIPFA Treasury Management Code and MHCLG Investment Guidance.

Training

The training needs of treasury management officers are periodically reviewed.

Treasury management consultants

The Authority uses Link Group, Treasury Solutions as its external treasury management advisors.

The Authority recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Authority will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

# THE CAPITAL PRUDENTIAL INDICATORS 2022/23 – 2024/25

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

Capital expenditure

This prudential indicator is a summary of the Authority’s capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts, details of which appear elsewhere on the agenda in the Strategic Asset Investment Framework:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Capital Expenditure** | **2020/21**  **Actual** | **2021/22**  **Estimate** | **2022/23**  **Estimate** | **2023/24**  **Estimate** | **2024/25**  **Estimate** |
| **Total** | **£6.512m** | **£3.740m** | **£4.161m** | **£3.308m** | **£8.367m** |

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Financing of capital expenditure** | **2020/21**  **Actual** | **2021/22**  **Estimate** | **2022/23**  **Estimate** | **2023/24**  **Estimate** | **2024/25**  **Estimate** |
| Capital receipts | £0.009m | £1.173m | £2.495m | £1.642m | £2.176m |
| Capital reserves & grants | £0.013m | £0m | £0m | £0m | £0m |
| Revenue | £0.600m | £0.600m | £1.666m | £1.666m | £1.666m |
| **Net financing need for the year** | **£5.890m** | **£1.967m** | **£0m** | **£0m** | **(£4,525m)** |

The Authority’s borrowing need (CFR)

The second prudential indicator is the Authority’s Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Authority’s indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge, which broadly reduces the borrowing need in line with each assets life, and so charges the economic consumption of capital assets as they are used.

The Authority is asked to approve the CFR projections below:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **2020/21**  **Actual** | **2021/22**  **Estimate** | **2022/23**  **Estimate** | **2023/24**  **Estimate** | **2024/25**  **Estimate** |
|  |  |  |  |  |  |
| **Total CFR** | **£10.500m** | **£11.807m** | **£11.106m** | **£10.412m** | **£14.278m** |
| **Movement in CFR** | **£5.478m** | **£1.307m** | **(£0.701m)** | **(£0.694m)** | **£3.866m** |
|  |  |  |  |  |  |
| **Movement in CFR represented by** |  |  |  |  |  |
| Net financing need for the year (above) | £5.890m | £1.967m | £0m | £0m | £4.525m |
| Less MRP/VRP and other financing movements | (£0.412m) | (£0.660m) | (£0.701m) | (£0.694m) | (£0.659m) |
| **Movement in CFR** | **£5.478m** | **£1.307m** | **(£0.701m)** | **(£0.694m)** | **£3.866m** |

The steady increase in CFR over time, reflecting the ongoing investment in strategic assets, takes into account the capital receipts expected from the disposal of sites following their release from operational requirements as usage of new assets commences.

Core funds and expected investment balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year end balances for each resource and anticipated day-to-day cash flow balances.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Year End Resources** | **2020/21**  **Actual** | **2021/22**  **Estimate** | **2022/23**  **Estimate** | **2023/24**  **Estimate** | **2024/25**  **Estimate** |
| Fund balances / reserves | £2.267m | £2.267m | £2.267m | £2.267m | £2.267m |
| Earmarked Reserves | £7.459m | £7.581m | £7.112m | £6.490m | £5.792m |
| Capital receipts | £0m | £0m | £3.818m | £2.176m | £0m |
| Grants | £0m | £0m | £0m | £0m | £0m |
| **Total core funds** | **£9.726m** | **£9.848m** | **£13.197m** | **£10.933m** | **£8.059m** |
| (Under)/over borrowing | (£3.408m) | £0m | £0.701m | £1.395m | £0m |
| **Expected investments** | **£6.318m** | **£9.848m** | **£13.898m** | **£12.328m** | **£8.059m** |

# BORROWING

The capital expenditure plans set out in Section 2 provide details of the service activity of the Authority. The treasury management function ensures that the Authority’s cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Authority’s capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

Current portfolio position

The Authority’s treasury portfolio position at 31 March 2021, with forward projections are summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **2020/21**  **Actual** | **2021/22**  **Estimate** | **2022/23**  **Estimate** | **2023/24**  **Estimate** | **2024/25**  **Estimate** |
| Debt at 1 April | £8.842m | £7.092m | £11.807m | £11.807m | £11.807m |
| Expected change in Debt | (£1.750m) | £4.715m | £0m | £0m | £2,471m |
| Actual gross debt at 31 March | **£7.092m** | **£11.807m** | **£11.807m** | **£11.807m** | **£14.278m** |
| The Capital Financing Requirement | **£10.500m** | **£11.807m** | **£11.106m** | **£10.412m** | **£14,278m** |
| Under / (over) borrowing | **£3.408m** | **£0m** | **(£0.701m)** | **(£1.395m)** | **£0m** |

Within the prudential indicators there are a number of key indicators to ensure that the Authority operates its activities within well-defined limits. One of these is that the Authority needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2022/2023 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes.

The Head of Finance and Procurement reports that the Authority complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

Treasury Indicators: limits to borrowing activity

**The operational boundary.** This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Operational boundary** | **2021/22**  **Estimate** | **2022/23**  **Estimate** | **2023/24**  **Estimate** | **2024/25 Estimate** |
| Debt | £11.807m | £11.807m | £11.807m | £14.278m | |
| Other long term liabilities | £0.100m | £5.000m | £5.000m | £5.000m | |
| **Total** | **£11.907m** | **£16.807m** | **£16.807m** | **£19.278m** | |

**The authorised limit for external debt.** A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Authority. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

1. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all Authorities’ plans, or those of a specific Authority, although this power has not yet been exercised.
2. The Authority is asked to approve the following authorised limit:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Authorised limit** | **2021/22**  **Estimate** | **2022/23**  **Estimate** | **2023/24**  **Estimate** | **2024/25**  **Estimate** |
| Debt | £16.807m | £16.807m | £16.807m | £19.278m |
| Other long term liabilities | £0.500m | £5.000m | £5.000m | £5.000m |
| **Total** | **£17.307m** | **£21.807m** | **£21.807m** | **£24.278m** |

Prospects for interest rates

The Authority has appointed Link Group as its treasury advisor and part of their service is to assist the Authority to formulate a view on interest rates. The following table gives their view.



Over the last two years, the coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England became the first major western central bank to put interest rates up in this upswing in December, it has quickly followed up its first 0.15% rise by another 0.25% rise to 0.50%, in the second of what is very likely to be a series of increases during 2022.

The Monetary Policy Committee (MPC) voted by a majority of 5-4 to increase Bank Rate by 25bps to 0.5% with the minority preferring to increase Bank Rate by 50bps to 0.75%. The Bank again sharply increased its forecast for inflation – to now reach a peak of 7.25% in April, well above its 2% target.

The Bank’s forecast is that they do not expect Bank Rate to rise to 1.5% in order to hit their target of CPI inflation of 2%. The immediate issue is with four members having voted for a 0.50% increase in February, it would only take one member more for there to be another 0.25% increase at the March meeting.

It is forecasted that the MPC will deliver another 0.25% increase in March; it is likely to be followed by an increase to 1.0% in May and then to 1.25% in November. The sharp increase throughout 2022 is to combat inflationary pressures. A sustained increase is not predicted during the current and next three financial years as it is not expected that inflation will return to being sustainably above 2% during this forecast period.

**3.4 Borrowing Strategy**

The Authority is currently maintaining an under-borrowed position. This means that the capital borrowing need, (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Authority’s reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

Against this background and the risks within the economic forecast, caution will be adopted with the 2022/23 treasury operations. The Head of Finance and Procurement will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

• if it was felt that there was a significant risk of a sharp fall in borrowing rates, then borrowing will be postponed.

• if it was felt that there was a significant risk of a much sharper rise in borrowing rates than that currently forecast, perhaps arising from an acceleration in the rate of increase in central rates in the USA and UK, an increase in world economic activity, or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

3.5 Policy on borrowing in advance of need

The Authority will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Authority can ensure the security of such funds.

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

* 1. Debt rescheduling

Rescheduling of current borrowing in our debt portfolio is unlikely to occur as there is still a very large difference between premature redemption rates and new borrowing rates, even though the general margin of PWLB rates over gilt yields was reduced by 100 bps in November 2020.

# ANNUAL INVESTMENT STRATEGY

Investment policy

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

* DLUHC’s Guidance on Local Government Investments (“the Guidance”)
* CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 (“the Code”)
* CIPFA Treasury Management Guidance Notes 2018

The Authority’s investment priorities will be security first, portfolio liquidity second and then yield, (return). The Authority will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Authority’s risk appetite. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs.

The above guidance from the DLUHC and CIPFA place a high priority on the management of risk. The Authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

1. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.
2. **Other information:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Authority will engage with its advisors.
3. **Other information sources** used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
4. The Authority has defined the list of types of investment instruments that the treasury management team are authorised to use. There are two lists in appendix 5.2 under the categories of ‘specified’ and ‘non-specified’ investments.
   * **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year or less.
   * **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.
5. **Non-specified investments limit.** The Authority has determined that it will limit the maximum total exposure to non-specified investments to £2m.
6. **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the matrix table in paragraph 4.2.

1. **Transaction limits** are set for each type of investment in appendix 5.1.
2. This authority will set a limit for the amount of its investments which are invested for **longer than 365 days**, (see paragraph 4.5).
3. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**, (see paragraph 4.3).
4. This authority has engaged **external consultants**, (see paragraph 1.5), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of the Authority in the context of the expected level of cash balances and need for liquidity throughout the year.
5. All investments will be denominated in **sterling**.
6. As a result of the change in accounting standards for 2022/23 under IFRS 9, this authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund.

However, the Authority will also pursue **value for money** in treasury management and will monitor the yield from investment income. Regular monitoring of investment performance will be carried out during the year.

* 1. Creditworthiness policy

The Authority applies the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody’s and Standard & Poor’s. The credit ratings of counterparties are supplemented with the following overlays:

* credit watches and credit outlooks from credit rating agencies;
* CDS spreads to give early warning of likely changes in credit ratings;
* sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, credit Watches and credit Outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads. The end product of this is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Authority to determine the suggested duration for investments. The Authority will therefore use counterparties within the following durational bands:

* Yellow 5 years \*
* Dark pink 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.25
* Light pink 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.5
* Purple 2 years
* Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
* Orange 1 year
* Red 6 months
* Green 100 days
* No colour not to be used

The Link creditworthiness service uses a wider array of information other than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency’s ratings.

Typically the minimum credit ratings criteria the Authority use will be a Short Term rating (Fitch or equivalents) of   F1 and a Long Term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used.  In these instances, consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored on an ongoing basis. The Authority is alerted to changes to ratings of all three agencies through its use of the Link creditworthiness service.

* if a downgrade results in the counterparty / investment scheme no longer meeting the Authority’s minimum criteria, its further use as a new investment will be withdrawn immediately.
* in addition to the use of credit ratings the Authority will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link Asset Services. Extreme market movements may result in downgrade of an institution or removal from the Authority’s lending list.

Sole reliance will not be placed on the use of this external service. In addition this Authority will also use market data and market information, information on any external support for banks to help support its decision making process.



|  |  |  |  |
| --- | --- | --- | --- |
|  | **Colour (and long term rating where applicable)** | **Money and/or %**  **Limit** | **Time**  **Limit** |
| **Banks \*** | **Yellow** | **100%** | **5yrs** |
| **Banks** | **Purple** | **100%** | **2 yrs** |
| **Banks** | **Orange** | **100%** | **1 yr** |
| **Banks – part nationalised** | **Blue** | **100%** | **1 yr** |
| **Banks** | **Red** | **100%** | **6 mths** |
| **Banks** | **Green** | **100%** | **100 days** |
| **Banks** | **No colour** | **Not to be used** |  |
| **Limit 3 category – Authority’s banker - Barclays** | **Red** | **100%** | **1 day** |
| **Other institutions limit** | **-** | **£2m** | **3yrs** |
| **DMADF** | **AAA** | **100%** | **6 months** |
| **Local authorities** | **n/a** | **100%** | **12 months** |
| **Housing associations** | **Colour bands** | **100%** | **As per colour band** |
|  | **Fund rating** | **Money and/or %**  **Limit** | **Time**  **Limit** |
| **Money market funds CNAV** | **AAA** | **100%** | **Liquid** |
| **Money market funds LVNAV** | **AAA** | **100%** | **Liquid** |
| **Money market funds VNAV** | **AAA** | **100%** | **Liquid** |
| **Ultra-Short Dated Bond Funds with a credit score of 1.25** | **Dark pink / AAA** | **100%** | **Liquid** |
| **Ultra-Short Dated Bond Funds with a credit score of 1.50** | **Light pink / AAA** | **100%** | **Liquid** |

* 1. Other limits

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

1. **Non-specified investment limit.** The Authority has determined that it will limit the maximum total exposure to non-specified investments to £2m.
2. **Country limit.** The Authority has determined that it will only use approved counterparties from the UK and from countries with a **minimum sovereign credit rating of AA-**from Fitch *(or equivalent*). The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 5.2. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.
3. **Other limits.** In addition:

* no more than £1m will be placed with any non-UK country at any time;
* limits in place above will apply to a group of companies;
* sector limits will be monitored regularly for appropriateness.

4.4 Investment strategy

**In-house funds**

Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. While most cash balances are required in order to manage the ups and downs of cash flow*,* where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

* If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable.
* Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

**Investment returns expectations**

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:

Average earnings in each year:

|  |  |  |
| --- | --- | --- |
| 2022/23 | 1.00% |  |
| 2023/24 | 1.25% |  |
| 2024/25  2025/26  Years 6-10  Years 10+ | 1.25%  1.25%  1.50%  2.00% |  |
|  |  |  |
|  |  |  |

For its cash flow generated balances, the Authority will seek to utilise its instant access and notice accounts in order to benefit from the compounding of interest. Short-dated deposits and money market fund options will also be considered and utilised where deemed appropriate to maximise return.

**4.5 Investment treasury indicator and limit**

Total principal funds invested for greater than 365 days. These limits are set with regard to the Authority’s liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

|  |  |  |  |
| --- | --- | --- | --- |
| **Maximum principal sums invested for longer than 365 days** | | | |
| **£m** | **2022/23** | **2023/24** | **2024/25** |
| Principal sums invested > 365 days | £2m | £2m | £2m |

The Authority is asked to approve the treasury indicator and limit: -

For its cash flow generated balances, the Authority will seek to utilise its business reserve instant access and notice accounts, money market funds and short-dated deposits in order to benefit from the compounding of interest.

4.6 End of year investment report

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

* 1. The Prudential and Treasury Indicators 2021/22-2023/24 and MRP Statement.

4.7.1 Minimum revenue provision (MRP) policy statement

The Authority is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments (voluntary revenue provision - VRP).

DLUHC regulations have been issued which require the full Authority to approve **an MRP Statement** in advance of each year. A variety of options are provided to Authorities, so long as there is a prudent provision. The Authority is recommended to approve the following MRP Statement.

For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be:

* **Based on CFR**

This option provides for an approximate 4% reduction in the borrowing need each year.

From 1 April 2008 for all unsupported borrowing (including PFI and finance leases) the MRP policy will be:

* **Asset life method** – MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction).

This option provides for a reduction in the borrowing need over approximately the asset’s life. Repayments included in finance leases are applied as MRP.

**MRP Overpayments** - A change introduced by the revised DLUHC MRP Guidance was the allowance that any charges made over the statutory minimum revenue provision (MRP), voluntary revenue provision or overpayments, can, if needed, be reclaimed in later years against in year MRP, if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. Up until the 31 March 2021 the total VRP overpayments were £1,186,000.

* + 1. Affordability prudential indicators

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

Ratio of financing costs to net revenue stream

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

The estimates of financing costs include current commitments and the proposals in this budget report.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **%** | **2020/21**  **Actual** | **2021/22**  **Estimate** | **2022/23**  **Estimate** | **2023/24**  **Estimate** | **2024/25**  **Estimate** |
| Ratio | 1.76% | 2.36% | 2.31% | 2.27% | 2.13% |

# APPENDICES

* 1. Credit and counterparty risk management
  2. Approved countries for investments

**5.1 Credit and Counterparty Risk Manangement**

**SPECIFIED INVESTMENTS:** All such investments will be sterling denominated, with **maturities up to maximum of 1 year**, meeting the minimum ‘high’ quality criteria where applicable.

**NON-SPECIFIED INVESTMENTS**: These are any investments which do not meet the specified investment criteria. A maximum of £2m will be held in aggregate in non-specified investments.

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

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

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Minimum credit criteria / colour band** | **\*\* Max % of total investments/ £ limit per institution** | **Max. maturity period** |
| **DMADF – UK Government** | yellow | **100%** | **6 months (max. is set by the DMO)** |
| UK Government gilts | yellow | £2m | 5 years |
| UK Government Treasury bills | yellow | £2m | 364 days (max. is set by the DMO) |
| Bonds issued by multilateral development banks | Yellow | £2m | 5 years |
| Money Market Funds CNAV | AAA | 100% | Liquid |
| Money Market Funds LVAV | AAA | 100% | Liquid |
| Money Market Funds VNAV | AAA | 100% | Liquid |
| Ultra-Short Dated Bond Funds  with a credit score of 1.25 | AAA | 100% | Liquid |
| Ultra-Short Dated Bond Funds with a credit score of 1.5 | AAA | 100% | Liquid |
| Local authorities | Yellow | 100% | 5 years |
| Term deposits with housing associations | Blue  Orange  Red  Green  No colour | £2m | 12 months  12 months  6 months  100 days  Not for use |
| Term deposits with banks and building societies | Blue  Orange  Red  Green  No Colour | £2m | 12 months  12 months  6 months  100 days  Not for use |
| CDs or corporate bonds with banks and building societies | Blue  Orange  Red  Green  No Colour | £2m | 12 months  12 months  6 months  100 days  Not for use |
| Gilt funds | UK sovereign rating | £2m |  |

**5.2 Approved Countries for Investments**

This list is based on those countries which have sovereign ratings of AA- or higher (we show the lowest rating from Fitch, Moody’s and S&P) and also, (except - at the time of writing - for Hong Kong, Norway and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Link Asset Services credit worthiness service.

AAA :

* Australia
* Denmark
* Germany
* Luxembourg
* Netherlands
* Norway
* Singapore
* Sweden
* Switzerland

AA+ :

* Canada
* Finland
* U.S.A.

AA :

* Abu Dhabi (UAE)
* France

AA- :

* Belgium
* Hong Kong
* Qatar
* **U.K**

