Item 2

Council

22 March 2016

Treasury Management Strategy 2016/17

Recommendations from Cabinet

1. That the County Council approves the Treasury Management Strategy and Investment Strategy for 2016/17 and that its provisions have immediate effect in the current financial year 2015/16.
2. That the Prudential Indicators (see **Appendix A**) as approved by Council in February 2016 are noted.
3. That the County Council requires the Head of Finance to ensure that net borrowing does not exceed the prudential level as specified in **Appendix A**, taking into account current commitments, existing plans, and the proposals in the budget report.
4. That the County Council delegates authority to the Head of Finance to undertake all the activities listed in **Appendix G** of this report, subject to the use of any new financial instruments being approved by Cabinet.
5. That the County Council requires the Head of Finance to implement the Minimum Revenue Provision Policy as specified in **Appendix H**.

1 Introduction

Background

1.1 Treasury management is defined 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."

1.2 The Council 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 Council's low risk appetite, providing security of capital and sufficient liquidity initially before considering investment return.

1.3 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council 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 occasions, debt previously drawn may be restructured to meet Council risk or cost objectives.

Statutory Requirements

1.4 The Local Government Act 2003 (the Act) and supporting regulations require the Council to 'have regard to' the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

1.5 The Act therefore requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance subsequent to the Act and included in section 7 of this report). This sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

CIPFA Requirements

1.6 The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (original 2001 Code) was adopted by this Council on 24 January 2002 by Cabinet. The revised Code (published in November 2009) was adopted on 25 February 2010 by Cabinet.

1.7 The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
3. Receipt by the full council of an annual Treasury Management Strategy Statement, to include the Annual Investment Strategy and Minimum Revenue Provision Policy for the year ahead, a Mid-year Review Report and an Annual (stewardship) Report covering activities during the previous year.
4. Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
5. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is Resources and Fire & Rescue Overview and Scrutiny Committee.

Treasury Management Strategy for 2016/17

1.8 The proposed strategy for 2015/16 is based upon the treasury officers' views on interest rates, supplemented with leading market forecasts provided by the Council's treasury adviser, Capita Asset Services (Capita).

1.9 The strategy covers:

- Treasury limits for 2016/17 to 2018/19
- Prudential Indicators
- Prospects for Interest Rates
- Borrowing Strategy
- Debt Rescheduling
- Annual Investment Strategy
- Minimum Revenue Provision Strategy

Balanced Budget Requirement

1.10 Under Section 33 of the Local Government Finance Act 1992, it is a statutory requirement for the Council to produce a balanced budget. In particular, Section 32 states a local authority must include the revenue costs that flow from capital financing decisions in its budget requirement for each financial year. Therefore increases in capital expenditure must be limited to a level whereby charges to revenue derived from increases in interest charges (caused by increased borrowing to finance additional capital expenditure and any increases in running costs from new capital projects) are limited.

2 Treasury Limits for 2016/17 to 2018/19

2.1 It is a statutory duty under Section 3 of the Act and supporting regulations for the Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the "Affordable Borrowing Limit". In England and Wales, the Authorised Limit represents the legislative limit specified in the Act.

2.2 The Council must have regard to the Prudential Code when setting the Authorised Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and the impact upon its future council tax is 'acceptable'.

2.3 Whilst termed an "Affordable Borrowing Limit", the capital plans to be considered for inclusion in corporate financing by both external borrowing and other forms of liability, such as credit arrangements. The Authorised Limit is to be set, on a rolling basis, for the forthcoming financial year and two successive financial years. Details of the Authorised Limit can be found in **Appendix A** of this report. Explanations of the terminology employed in the Appendix can be found in **Appendix B.**

3 Prudential Indicators for 2016/17 to 2018/9

3.1 Prudential and Treasury Indicators (**Appendix A** to this report) are relevant for the purposes of setting an integrated Treasury Management Strategy.

3.2 Council approved the Prudential Indicators as part of the budget resolution in February 2016. These indicators will be revised, if necessary, for the Council approved capital programme.

3.3 The Prudential Indicators are relevant for the purposes of setting an integrated Treasury Management Strategy. The indicators are provisional and based on the current agreed capital programme.

4 Prospects for Interest Rates

4.1 The Council has appointed Capita as treasury advisor to the Council and part of their service is to assist the Council to formulate a view on interest rates. The table below sets out Capita's view on the future Bank Rate.

Capita Bank Rate Forecast

Period	Bank Rate %
Until December 2016	0.50
Until June 2017	0.75
Until December 2017	1.00
Until June 2018	1.25
Until December 2018	1.50
Until March 2019	1.75

4.2 A detailed view of the current economic background is contained within **Appendix C** to this report.

5 Borrowing Strategy

5.1 The Council is currently maintaining an over borrowed position. This means there is no current need for capital borrowing (the Capital Financing Requirement). Based on the estimates of medium term capital expenditure, the Council's gross borrowing covers the Capital Financing Requirement until 2018/19.

5.2 The Treasury Team will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances. Any decisions will be reported to the Resources and Fire & Rescue Overview and Scrutiny Committee at the next opportunity.

5.3 The Capita forecast for the PWLB new borrowing rate is as follows:

Annual Average %	PWLB Borrowing Rates % (including certainty rate adjustment)		
	5 year	25 year	50 year
Mar 2016	2.00	3.40	3.20
Jun 2016	2.10	3.40	3.20
Sep 2016	2.20	3.50	3.30
Dec 2016	2.30	3.60	3.40
Mar 2017	2.40	3.70	3.50
Jun 2017	2.50	3.70	3.60
Sep 2017	2.60	3.80	3.70
Dec 2017	2.70	3.90	3.80
Mar 2018	2.80	4.00	3.90
Jun 2018	2.90	4.00	3.90
Sep 2018	3.00	4.10	4.00
Dec 2018	3.10	4.10	4.00
Mar 2019	3.20	4.10	4.00

5.4 In view of the above forecast, the Council's borrowing strategy will be based upon the following:

- The cheapest borrowing will be internal borrowing by running down cash balances and foregoing interest earned at historically low rates.
- Internal borrowing will be weighed against potential long term costs that will be incurred if market loans at long term rates are higher in future years.
- Long term fixed rate market loans at rates significantly below PWLB rates for the equivalent maturity period (where available) and to maintaining an appropriate balance between PWLB and market debt in the debt portfolio.
- PWLB borrowing for periods under ten years where rates are expected to be significantly lower than rates for longer periods. This offers a range of options for new borrowing which will spread debt maturities away from a current concentration in longer dated debt.

5.5 Against this background and the risks within the economic forecast, caution will be adopted within the treasury operations in 2016/17. The Head of Finance 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 long and short term rates (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered

- if it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast in world economic activity or a sudden increase in inflation risks, then the portfolio position will be reappraised with the likely action that fixed rate funding will be drawn whilst interest rates are still lower than they will be in the next few years

Policy on borrowing in advance of need

5.8 The Council 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 considered carefully to ensure value for money can be demonstrated and that the Council can ensure the security of such funds.

5.9 In determining whether borrowing will be undertaken in advance of need, the Council will:

- ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to fund in advance of need;
- ensure the ongoing revenue liabilities created, and the implications on future plans and budgets have been considered;
- evaluate the economic and market factors that might influence the manner and timing of any decision;
- consider the merits and demerits of alternative forms of funding;
- consider the alternative interest rate bases available, the most appropriate time periods and repayment profiles;
- consider the impact on temporarily (until required to finance capital expenditure) increasing cash balances and the consequent increase in exposure to counterparty and other risks in light of the residual level of such risks given the controls in place to manage them.

Scheme of Delegation

5.10 The scheme of delegation in terms of financing options and decisions to be taken by the Head of Finance is shown in **Appendix G.**

6 Debt Rescheduling

6.1 As short term borrowing rates will be considerably cheaper than longer term rates, there may be opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of their short term nature and the likely cost of debt repayments.

6.2 The reasons for any rescheduling to take place will include:

- the generation of cash savings and/or discounted cash flow savings;
- helping to fulfil the strategy
- enhancing the balance of the portfolio (amending the maturity profile and/or the balance of volatility).

6.3 Consideration will also be given to identify if there is any potential for making savings by running down investment balances in order to repay debt prematurely as short term interest received on investments is likely to be lower than interest paid on current debt.

6.4 The Council has examined the potential for undertaking early repayment of some external debt to the PWLB in order to reduce the difference between its gross and net debt position. However, the premium that would be incurred by doing so means there would need to be careful analysis of the cost and benefit from such early repayment. It is likely that the Municipal Bond Agency, currently in the process of being set up, will be offering loans to local authorities in the near future. It is also hoped that the borrowing rates will be lower than those offered by the Public Works Loan Board (PWLB). This Authority is a founder member and would consider the agency alongside the PWLB in the event that borrowing was required.

7 Annual Investment Strategy

Investment Policy

7.1 The Council will have regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code").

7.2 The Council's investment priorities will be security first, liquidity second and then return.

7.3 In accordance with the above, and in order to minimise the risk to investments, the Council has stipulated in **Appendix E**, the minimum acceptable credit quality of counterparties for inclusion on the lending list.

7.4 Furthermore, the Council's officers recognise that ratings should not be the sole determinant of the quality of an institution and that 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 the institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to monitor market pricing such as Credit Default Swaps and overlay that information on top of the credit ratings.

7.5 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 of the suitability of potential investment counterparties. The aim of the strategy is to generate a list of highly creditworthy counterparties which will enable diversification and therefore avoid concentration risk. The intention of the strategy is to provide security of investment and minimisation of risk.

7.6 Investment instruments identified for use in the financial year are listed in **Appendix E** under the 'Specified' and 'Non-Specified' Investments categories. Counterparty limits will be as set through the Council's Treasury Management Practices Schedules.

Creditworthiness Policy

7.7 The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the Council will ensure that it maintains a policy covering both the categories and types of investment that It will invest in and the criteria for choosing investment counterparties with adequate security and the monitoring of their security. This is set out in the specified and non-specified investment sections in **Appendix E**. Also that It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

7.8 The Head of Finance will maintain a counterparty list in compliance with the criteria and will revise and submit the criteria to Council for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.

7.9 The Council will ensure that it maintains its policy covering both the categories and types of investment, the criteria for choosing investment counterparties with adequate security, and the monitoring of that security. Moreover, it will ensure it has sufficient liquidity in its investments. For this purpose, it will follow procedures for determining the maximum periods for which funds may be committed according to future cash flow requirements. The Head of Finance will maintain a list of counterparties in compliance with the stated criteria, providing a high quality pool of counterparties which the Council may use.

7.10 Credit rating information is supplied by Capita, our treasury consultants, on all counterparties that comply with the stated criteria. Any counterparty failing to meet the criteria will be deleted from the counterparty lending list. Any rating changes, watches (notification of a likely change), or outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing.

Country Limits

7.11 The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA from Fitch Ratings (or an equivalent rating from other agencies if Fitch does not provide). The list of countries that qualify using this credit criteria at the current time are shown in **Appendix F**. This list will be amended by officers as and when ratings change in accordance with this policy.

Investment Strategy

7.12 The Council has in-house managed funds that are mainly cash flow derived and a core balance available for investment over a maximum one year period. Investments will be made with regard to the core balance, cash flow requirements and the outlook for short term interest rates.

7.13 For its cash flow generated balances, the Council will seek to utilise its business reserve accounts and short dated deposits (overnight to three months) in order to benefit from the compounding of interest.

End of Year Investment Report

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

External Fund Managers

7.15 The County Council uses a number of external managers to spread risk and obtain maximum market exposure. The fund managers will use both specified and non-specified investments and must comply with the terms set out in **Appendix E**. External fund managers actively used are listed below.

Fund Manager	**Product/Fund Name**
CCLA	Public Sector Deposit Fund
CCLA	Local Authority Property Fund
Standard Life	Short Duration Cash Fund
Aberdeen Asset Management	Sterling Liquidity Fund
Federated Investors	Sterling Liquidity Fund
Columbia Threadneedle	UK Social Bond Fund
Aviva Investors	Sterling Core Liquidity Fund

Policy on the Use of External Service Providers

7.16 The Council uses Capita as its external treasury management advisers. The Council 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. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed, documented and subject to regular review.

Role of the Section 151 Officer

7.17 Please see **Appendix G**.

Pension Fund Cash

7.18 This Council will comply with the requirements of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, implemented 1 January 2010. With effect 1 April 2010, the Council does not pool pension fund cash with its own cash balances for investment purposes.

Any investments made by the pension fund directly with this local authority after 1 April 2010 must comply with the requirements of SI 2009 No 393.

8 Minimum Revenue Provision

8.1 The Council's policy on Minimum Revenue Provision (MRP) is shown in Appendix H.

Background papers

None

	Name	**Contact Information**
Report Author	Mat Dawson Treasury and Pension Fund Manager	matdawson@warwickshire.gov.uk 01926 412227
Head of Service	John Betts Head of Finance	johnbetts@warwickshire.gov.uk 01926 412441
Strategic Director	David Carter, Strategic Director	davidcarter@warwickshire.gov.uk 01926 412564
Portfolio Holder	Cllr Cockburn	cllrcockburn@warwickshire.gov.uk

APPENDICES

A. Prudential and Treasury Indicators

B. Prudential Term Explanations

C. Capita Economic Commentary

D. Treasury Management Scheme of Delegation

E. Schedule of Specified and Non Specified Investments

F. Approved Countries for Investments

G. The Treasury Management Role of the S151 (Responsible) Officer: Head of Finance

H. Minimum Revenue Provision

Appendix A

PRUDENTIAL INDICATOR	2014/15	2015/16	2016/17	2017/18	2018/19
(1). AFFORDABILITY PRUDENTIAL INDICATORS					
	Actual	estimate	estimate	estimate	estimate
	£'000	£'000	£'000	£'000	£'000
Capital Expenditure	91,458	106,585	88,677	52,529	15,211
	%	%	%	%	%
Ratio of financing costs to net revenue stream	9.23	9.14	9.37	8.96	8.73
Gross borrowing requirement	£'000	£'000	£'000	£'000	£'001
Gross Debt	393,485	388,424	363,424	362,274	352,274
Capital Financing Requirement as at 31 March	332,825	360,965	371,996	365,666	347,535
Under/(Over) Borrowing	(60,660)	(27,459)	8,572	3,392	(4,739)
	£'000	£'000	£'000	£'000	£'001
In year Capital Financing Requirement	11,899	28,140	11,031	(6,330)	(18,131)
	£'000	£'000	£'000	£'000	£'001
Capital Financing Requirement as at 31 March	332,825	360,965	371,996	365,666	347,535
Affordable Borrowing Limit	£	£	£	£	£
Position as agreed at March 2015 Council	-5.98	1.90	11.22	12.13	
Increase per council tax payer					
Updated position of Current Capital Programme					
Increase per council tax payer	-5.96	1.90	5.05	-2.53	-2.35

PRUDENTIAL INDICATOR	2014/15	2015/16	2016/17	2017/18	2017/19
(2). TREASURY MANAGEMENT PRUDENTIAL INDICATORS					
	approved	approved	estimate	estimate	estimate
Authorised limit for external debt -	£'000	£'000	£'000	£'000	£'001
Borrowing	501,915	526,219	497,346	461,130	449,993
other long term liabilities	12,000	12,000	12,000	12,000	12,000
TOTAL	**513,915**	**538,219**	**509,346**	**473,130**	**461,993**
Operational boundary for external debt -	£'000	£'000	£'000	£'000	£'001
Borrowing	418,263	438,516	414,455	384,275	374,994
other long term liabilities	10,000	10,000	10,000	10,000	10,000
TOTAL	**428,263**	**448,516**	**424,455**	**394,275**	**384,994**
Upper limit for fixed interest rate exposure					
Net principal re fixed rate borrowing / investments	100%	100%	100%	100%	200%
Upper limit for variable rate exposure					
Net principal re variable rate borrowing / investments	25%	25%	25%	25%	25%
Upper limit for total principal sums invested for over 364 days	£	£	£	£	£
(per maturity date)	£0	£0	£0	£0	£0

Maturity structure of new fixed rate borrowing during 2014/15	upper limit	lower limit
under 12 months	20%	0%
12 months and within 24 months	20%	0%
24 months and within 5 years	60%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

Appendix B

PRUDENTIAL INDICATORS

Ratio of financing costs to net revenue stream

The ratio of financing costs to net revenue stream shows the estimated annual revenue costs of borrowing, less net interest receivable on investments, plus repayments of capital, as a proportion of annual income from council taxpayers and central government. The estimates of financing costs include current and future commitments based on the capital programme.

Gross Borrowing

Gross borrowing refers to the Authority's total external borrowing and other long term liabilities versus the Capital Financing Requirement.

Actual and Estimated Capital Expenditure

Actual and estimates of capital expenditure for the current and future years.

Capital Financing Requirement

The Capital Financing Requirement (CFR) represents capital expenditure financed by external debt and not by capital receipts, revenue contributions, capital grants or third party contributions at the time of spending. The CFR measures the Authority's underlying need to borrow externally for a capital purpose. The Authority has a treasury management strategy which accords with the CIPFA Code of Practice for Treasury Management in the Public Services.

Authorised Limit

In respect of its external debt, the Authority approves authorised limits for its total external debt gross of investments. These limits separately identify borrowing from other long-term liabilities such as finance leases. Authorised Limits are consistent with the Authority's current commitments, service plans, proposals for capital expenditure and associated financing, cash flow and accord with the approved Treasury Management Policy statement and practices. The Authorised Limit is based on the estimate of most likely prudent, but not necessarily the worst case scenario and provides sufficient additional headroom over and above the Operational Boundary.

Operational Boundary

The Operational Boundary for external debt is based on the same estimates as the authorised limit but reflects the Head of Finance's estimate of the most likely, prudent but not worst case scenario, without the additional headroom included within the authorised limit to allow for unusual cash movements, and equates to the maximum of external debt projected by this estimate. The operational boundary represents a key management tool for in-year monitoring. Within the operational boundary, figures for borrowing and other long-term liabilities are separately identified.

Limits on Interest Rate Exposure

This means that the Authority will manage fixed and variable interest rate exposure within the ranges. This provides flexibility to take advantage of any favourable movements in interest rates.

Appendix C

Economic Commentary (Capita's View)

Economic Background

UK GDP growth rates in of 2.2% in 2013 and 2.9% in 2014 were the strongest growth rates of any G7 country; the 2014 growth rate was also the strongest UK rate since 2006 and the 2015 growth rate is likely to be a leading rate in the G7 again. However, quarter 1 of 2015 was weak at +0.4%, although there was a short lived rebound in quarter 2 to +0.7% before it subsided again to +0.5% (+2.3% y/y) in quarter 3. The Bank of England's November Inflation Report included a forecast for growth to remain around 2.5% – 2.7% over the next three years. For this recovery, however, to become more balanced and sustainable in the longer term, it still needs to move away from dependence on consumer expenditure and the housing market to manufacturing and investment expenditure. The strong growth since 2012 has resulted in unemployment falling quickly to a current level of 5.2%.

The MPC has been particularly concerned that the squeeze on the disposable incomes of consumers should be reversed by wage inflation rising back above the level of CPI inflation in order to underpin a sustainable recovery. It has, therefore, been encouraging in 2015 to see wage inflation rising significantly above CPI inflation which has been around zero since February. However, it is unlikely that the MPC would start raising rates until wage inflation was expected to consistently stay over 3%, as a labour productivity growth rate of around 2% would mean that net labour unit costs would still only be rising by about 1% y/y. The Inflation Report was notably subdued in respect of the forecasts for CPI inflation; this was expected to barely get back up to the 2% target within the 2-3 year time horizon. The increase in the forecast for inflation at the three year horizon was the biggest in a decade and at the two year horizon it was the biggest since February 2013. However, the first round of falls in oil, gas and food prices in late 2014 and in the first half 2015, will fall out of the 12 month calculation of CPI during late 2015 / early 2016 but only to be followed by a second, more recent, round of falls in fuel prices which will now delay a significant tick up in inflation from around zero. CPI inflation is now expected to get back to around 1% in the second half of 2016 and not get near to 2% until 2017, though the forecasts in the Report itself were for an even slower rate of increase.

There is, therefore, considerable uncertainty around how quickly pay and CPI inflation will rise in the next few years and this makes it difficult to forecast when the MPC will decide to make a start on increasing Bank Rate. There are also concerns around the fact that the central banks of the UK and US currently have few monetary policy options left to them given that central rates are near to zero and huge QE is already in place. There are, accordingly, arguments that they need to raise rates sooner, rather than later, so as to have some options available for use if there was another major financial crisis in the near future. But it is unlikely that either would raise rates until they are sure that growth was securely embedded and 'noflation' was not a significant threat.

The forecast for the first increase in Bank Rate has, therefore, been pushed back progressively during 2015 from Q4 2015 to Q2 2016. Increases after that are also likely to be at a much slower pace, and to much lower final levels than prevailed before 2008, as increases in Bank Rate will have a much bigger effect on heavily indebted consumers and householders than they did before 2008. The Government's revised Budget in July eased the pace of cut backs from achieving a budget surplus in 2018/19 to achieving that in 2019/20 and this timetable was maintained in the November Budget.

Forward View

Economic forecasting remains difficult with so many external influences weighing on the UK. Our Bank Rate forecasts, (and also MPC decisions), will be liable to further amendment depending on how economic data evolves over time. Capita Asset Services undertook its last review of interest rate forecasts on 9 November 2015 shortly after the publication of the quarterly Bank of England Inflation Report. There is much volatility in rates and bond yields as news ebbs and flows in negative or positive ways. This latest forecast includes a first increase in Bank Rate in quarter 2 of 2016.

The overall trend in the longer term will be for gilt yields and PWLB rates to rise when economic recovery is firmly established accompanied by rising inflation and consequent increases in Bank Rate, and the eventual unwinding of QE. Increasing investor confidence in eventual world economic recovery is also likely to compound this effect as recovery will encourage investors to switch from bonds to equities.

The overall balance of risks to economic recovery in the UK is currently evenly balanced. Only time will tell just how long this current period of strong economic growth will last; it also remains exposed to vulnerabilities in a number of key areas.

However, the overall balance of risks to our Bank Rate forecast is probably to the downside, i.e. the first increase, and subsequent increases, may be delayed further if recovery in GDP growth, and forecasts for inflation increases, are lower than currently expected. Market expectations in November, (based on short sterling), for the first Bank Rate increase are currently around mid-year 2016.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Geopolitical risks in Eastern Europe, the Middle East and Asia, increasing safe haven flows.
- UK economic growth turns significantly weaker than we currently anticipate.
- Weak growth or recession in the UK's main trading partners - the EU, US and China.
- A resurgence of the Eurozone sovereign debt crisis.
- Recapitalisation of European banks requiring more government financial support.
- Emerging country economies, currencies and corporates destabilised by falling commodity prices and / or the start of Fed. rate increases, causing a flight to safe havens

The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -

- Uncertainty around the risk of a UK exit from the EU.
- The commencement by the US Federal Reserve of increases in the Fed. funds rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities.
- UK inflation returning to significantly higher levels than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.

APPENDIX D

Treasury Management Scheme of Delegation

(i) County Council

- approval of annual strategy.
- budget consideration and approval.
- approval of the division of responsibilities.

(ii) Cabinet

- scrutinise the proposed annual strategy.
- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices.

(iii) Resources and Fire & Rescue Overview and Scrutiny Committee

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.
- receiving and reviewing regular monitoring reports and acting on recommendations.

Appendix E

Specified Investments

All such investments will be sterling denominated, with maturities up to maximum of one year, meeting the minimum ‘high’ rating criteria where applicable.

	Minimum ‘High’ Credit Criteria	**Use**
DMO Deposit Facility	--	In-house
Term deposits: Local Authorities	--	In-house
Nationalised Banks	Short-term F1, Support 1	In-house and External Manager
Term deposits: UK Banks	Short-term F1, Long-term A, Viability a, Support 3	In-house and External Manager
Term deposits: Bank Council uses for current account	--	In-house and External Manager
Term deposits: UK Building Societies	Top five largest societies as reported semi-annually. (To be continually monitored)	In-house and External Manager
Term deposits: Overseas Banks	Short-term F1+, Long-term AA, Viability aa, Support 1	In-house and External Manager
Certificates of deposits issued by UK banks and building societies	Short-term F1, Long-term A, Viability a, Support 3	External Manager
Money Market Funds	AA	In-house and External Manager
UK Government Gilts, Treasury Bills	--	External Manager
Gilt Funds and Bond Funds	Long-term A	External Manager

Non-Specified Investments

	*** Minimum Credit Criteria**	**Use**
Term deposits: UK banks and building societies with maturities in excess of one year with a maximum of three years allowed for in-house deposits	Short-term F1, Long-term A, Viability a, Support 3	In-house and External Manager
Fixed Term Deposit with Variable Rates and Variable Maturities	Short-term F1, Long-term A, Viability a+, Support 3	In-house and External Manager
Certificates of Deposits issued by UK banks and building societies	Short-term F1, Long-term A, Viability a, Support 3	External Manager
UK Government Gilts with maturities in excess of 1 year	--	External Manager
Local Authority Mortgage Scheme	As per scheme conditions	In-house
Investment in the Local Government Association Mutual Bond Agency, the local Government Money Market and Property investment vehicles managed on behalf of the Local Government Association by CCLA.	--	--

Appendix F

Approved Countries for Investments

AAA

- Australia
- Canada
- Denmark
- Germany
- Netherlands
- Singapore
- Sweden
- Switzerland

AA+

- Finland
- U.K.
- U.S.A.

AA

- Abu Dhabi (UAE)
- France
- Qatar

Appendix G

The Treasury Management Role of the S151 (Responsible) Officer: Head of Finance

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
- submitting regular treasury management policy reports
- submitting budgets and budget variations
- receiving and reviewing management information reports
- reviewing the performance of the treasury management function
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- ensuring the adequacy of internal audit, and liaising with external audit
- recommending the appointment of external service providers
- entering into repurchase transactions where appropriate

Appendix H

MINIMUM REVENUE PROVISION

1. What is a Minimum Revenue Provision?

Capital expenditure is generally expenditure on assets which have a life expectancy of more than one year e.g. buildings, vehicles, machinery etc. It would be impractical to charge the entirety of such expenditure to revenue in the year in which it was incurred and so such expenditure is spread over several years so as to try to match the years over which such assets benefit the local community through their useful life. The manner of spreading these costs is through an annual Minimum Revenue Provision (MRP).

2. Statutory Duty

Statutory Instrument 2008 no. 414 s4 lays down that:

“A local authority shall determine for the current financial year an amount of minimum revenue provision that it considers to be prudent.”

There is no requirement to charge MRP where the Capital Financing Requirement is nil or negative at the end of the preceding financial year.

3. Government Guidance

Along with the above duty, the Government issued guidance in February 2008 which requires that a Statement on the Council’s policy for its annual MRP should be submitted to the full Council for approval before the start of the financial year to which the provision will relate.

The Council is legally obliged to “have regard” to the guidance, which is intended to enable a more flexible approach to assessing the amount of annual provision than was required under the previous statutory requirements. The guidance offers four main options under which MRP could be made with an overriding recommendation that the Council should make prudent provision to redeem its debt liability over a period which is reasonably commensurate with that over which the capital expenditure is estimated to provide benefits. The requirement to “have regard” to the guidance therefore means that:

a. Although four main options are recommended in the guidance, there is no intention to be prescriptive by making these the only methods of charge under which a local authority may consider its MRP to be prudent.

b. It is the responsibility of each authority to decide upon the most appropriate method of making a prudent provision, after having had regard to the guidance.

4. Warwickshire County Council Policy

We have decided not to use any of the options outlined in the statutory guidance but to adopt an alternative approach, which we believe is prudent.

The MRP provision will be calculated on the average remaining useful life of the Council's asset portfolio. We will calculate and apply the remaining useful life over two categories of asset:

- Land, buildings and infrastructure;
- Vehicles, plant and equipment.

The proportion of debt outstanding in each category of asset will be determined by the value of assets included in the balance sheet at the end of each financial year.

For land, buildings and infrastructure the, average remaining useful life will be calculated every five years, in line with our policy on revaluing our assets, e.g. 20 years average remaining life will result in 5% straight line MRP.

For vehicles, plant and equipment, the remaining useful life is assumed to be five years e.g. 5 years average remaining useful life will result in 20% straight line MRP.