

Council

21 March 2017

Treasury Management Strategy 2017/18

Recommendations from Cabinet

- 1) That the County Council approves the Treasury Management Strategy and Investment Strategy for 2017/18 and that its provisions have immediate effect in the current financial year 2016/17.
- 2) That the Prudential Indicators (see **Appendix A**) 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 2017/18

- 1.8 The proposed strategy for 2017/18 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 2017/18 to 2019/20
 - Prudential Indicators
 - Prospects for Interest Rates
 - Borrowing Strategy
 - Debt Rescheduling
 - Annual Investment Strategy
 - Minimum Revenue Provision Strategy

Balanced Budget Requirement

- 1.10 Under Section 42B of the Local Government Finance Act 1992, it is a statutory requirement for the Council to produce a balanced budget. In particular, Section 42A 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.

MiFID II

- 1.11 The Markets in Financial Instruments Directive ('MiFID') was introduced due to increasing complexity of financial products and issues related to the 2008 financial crisis. Part two of the directive is due to come into effect in January 2018. Its primary feature is that it re-classifies investors into 'professional' or 'retail' clients. If we are deemed the latter then it will restrict the type of investment funds we may invest in. If enacted, this will have a major impact on our Treasury Management strategy and on our ability to function as Administering Authority to the Warwickshire Pension Fund.

We are optimistic that we can demonstrate that we have suitably qualified staff with the necessary skills, training and experience to fulfil the role of "professional client". This will enable us to continue with our current treasury management (and Pension fund investment) activity. However, if this proves difficult to demonstrate then we will need to bring the strategy back to Council for amendment.

2 Treasury Limits for 2017/18 to 2019/20

- 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 to be considered for inclusion in corporate financing is 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 2017/18 to 2019/20

- 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 will approve the Prudential Indicators as part of the budget resolution in February 2017. 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 %
Jan 2017 to Mar 2019	0.25
Apr 2019 to Dec 2019	0.50
Jan 2019 -	0.75

- 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 2019/20.
- 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 2017	1.60	2.90	2.70
Jun 2017	1.60	2.90	2.70
Sep 2017	1.60	2.90	2.70
Dec 2017	1.60	3.00	2.80
Mar 2018	1.70	3.00	2.80
Jun 2018	1.70	3.00	2.80
Sep 2018	1.70	3.10	2.90
Dec 2018	1.80	3.10	2.90
Mar 2019	1.80	3.20	3.00
Jun 2019	1.90	3.20	3.00
Sep 2019	1.90	3.30	3.10
Dec 2019	2.00	3.30	3.10

- 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 2017/18. The Head of Finance will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances, for example:

- 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 may 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

5.6 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.

5.7 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

- 5.8 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. The Municipal Bonds Agency will be offering loans to local authorities in the near future. It is envisaged 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.
- 7.7 The Council on occasion will hold long term investments or provide loans for operational policy reasons, for example, to our local authority traded companies. Operational loans and investments will be assessed and approval sought from members on a case-by-case basis. This will include a full assessment of the risk, including credit risk and how this will be managed.

Creditworthiness Policy

- 7.8 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.
- 7.9 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.
- 7.10 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.

- 7.11 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

- 7.12 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

- 7.13 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.
- 7.14 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

- 7.15 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

- 7.16 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

7.17 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

7.18 Please see **Appendix G**.

Pension Fund Cash

7.19 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	01926 412227 matthewdawson@warwickshire.gov.uk
Head of Service	John Betts Head of Finance	01926 412441 johnbetts@warwickshire.gov.uk
Strategic Director	David Carter, Strategic Director	01926 412564 davidcarter@warwickshire.gov.uk
Portfolio Holder	Cllr Cockburn	cllrcockburn@warwickshire.gov.uk

The report was circulated to the following members prior to publication for the Cabinet meeting 9 March 2017:

Local Member(s): N/A

Other members: Cockburn, N.Davies, Dirveiks, Morris-Jones, Western

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

(1). AFFORDABILITY PRUDENTIAL INDICATORS	2015/16	2016/17	2017/18	2018/19	2019/20
	Actual	estimate	estimate	estimate	estimate
	£'000	£'000	£'000	£'000	£'000
Capital Expenditure	85,733	106,989	141,630	66,071	33,058
	%	%	%	%	%
Ratio of financing costs to net revenue stream	8.86	10.34	8.47	8.97	8.95
Gross borrowing requirement	£'000	£'000	£'000	£'000	£'000
Gross Debt	388,424	363,424	362,274	362,274	352,274
Capital Financing Requirement as at 31 March	319,361	346,224	397,328	399,988	404,180
Under/(Over) Borrowing	(69,062)	(17,200)	35,054	37,714	51,906
	£'000	£'000	£'000	£'000	£'000
In year Capital Financing Requirement	14,004	26,862	51,104	2,660	4,192
	£'000	£'000	£'000	£'000	£'000
Capital Financing Requirement as at 31 March	319,361	346,224	397,328	399,988	404,180
Affordable Borrowing Limit	£	£	£	£	£
Position as agreed at March 2016 Council	1.90	5.05	-2.53	-2.35	
Increase per council tax payer					
Updated position of Current Capital Programme					
Increase per council tax payer	-5.81	1.30	-17.26	10.82	-0.24
PRUDENTIAL INDICATOR	2015/16	2016/17	2017/18	2018/19	2019/20
(2). TREASURY MANAGEMENT PRUDENTIAL INDICATORS	approved	estimate	estimate	estimate	estimate
Authorised limit for external debt -	£'000	£'000	£'000	£'000	£'000
Borrowing	526,219	497,346	549,049	550,861	567,891
other long term liabilities	12,000	12,000	12,000	12,000	12,000
TOTAL	538,219	509,346	561,049	562,861	579,891
Operational boundary for external debt -	£'000	£'000	£'000	£'000	£'000
Borrowing	438,516	414,455	457,540	459,051	473,243
other long term liabilities	10,000	10,000	10,000	10,000	10,000
TOTAL	448,516	424,455	467,540	469,051	483,243
Upper limit for fixed interest rate exposure					
Net principal re fixed rate borrowing / investments	100%	100%	100%	100%	100%
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%			

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.

Economic Commentary (Capita's View)

Economic Background

GDP growth rates in 2013 of 2.2% and 2.9% in 2014 were strong but 2015 was disappointing at 1.8%, though it remained one of the leading rates among the G7 countries. Growth improved in quarter 4 of 2015 from +0.4% to 0.7% but fell back to +0.4% (2.0% y/y) in quarter 1 of 2016 before bouncing back again to +0.7% (2.1% y/y) in quarter 2. During most of 2015, the economy had faced headwinds for exporters from the appreciation during the year of sterling against the Euro, and weak growth in the EU, China and emerging markets, plus the dampening effect of the Government's continuing austerity programme.

The referendum vote for Brexit in June 2016 delivered an immediate shock fall in confidence indicators and business surveys at the beginning of August, which were interpreted as pointing to an impending sharp slowdown in the economy. However, the following monthly surveys in September showed an equally sharp recovery in confidence and business surveys so that it is generally expected that the economy will post positive growth numbers through the second half of 2016 and in 2017, albeit at a slower pace than in the first half of 2016.

The Monetary Policy Committee (MPC) meeting on 4th August was dominated by consideration of the initial shock fall in business surveys and the expected sharp slowdown in growth. The result was a package of measures that included a cut in Bank Rate from 0.50% to 0.25%, a renewal of quantitative easing with £70bn made available for purchases of gilts and corporate bonds, and a £100bn tranche of cheap borrowing for banks to use to lend to businesses and individuals. The Bank of England quarterly Inflation Report included an unchanged forecast for growth for 2016 of 2.0% but cut the forecast for 2017 from 2.3% to just 0.8% and the forecast for 2018 to 1.8%. However, some forecasters think that the Bank has been too pessimistic with its forecasts; since then, later statistics and the sharp recovery in business surveys have provided support for this view. The Governor of the Bank of England, Mark Carney, had warned that a vote for Brexit would be likely to cause a slowing in growth, particularly from a reduction in business investment, due to the uncertainty of whether the UK would have continuing full access, (i.e. without tariffs), to the EU single market. He also warned that the Bank could not do all the heavy lifting to boost economic growth and suggested that the Government will need to help growth by increasing investment expenditure and possibly by using fiscal policy tools (taxation). The new Chancellor, Phillip Hammond, announced, after the referendum result, that the target of achieving a budget surplus in 2020 will be eased in the Autumn Statement on 23rd November.

The Inflation Report also included a sharp rise in the forecast for inflation to around 2.4% in 2018 and 2019. CPI had already started rising during 2016 as the falls in the price of oil and food twelve months ago fall out of the calculation during the year and, in addition, the post referendum 18% fall in the value of sterling on a trade weighted basis, (as at late October), is likely to result in additional upward pressure on CPI. However, this further increase in inflationary pressures will take 2-3 years to gradually work its way through the economy so is unlikely to cause major concern to the MPC unless the increases are stronger than anticipated. The MPC is, therefore, on balance, expected to look through this one off upward blip in inflation from the devaluation of sterling in order to support economic growth, especially if pay increases continue to remain subdued and therefore pose little danger of stoking core inflationary price pressures *arising from within* the UK economy. The Bank of England will most probably have to revise its inflation forecasts significantly higher in its 3rd November quarterly Inflation Report: this rise in inflation expectations has caused investors in gilts to demand a sharp rise in longer term gilt

yields, which have already risen by around fifty basis points since mid-August. It should be noted that 27% of gilts are held by overseas investors who will have seen the value of their gilt investments fall by 18% as a result of the devaluation of sterling, (if their investments had not been currency hedged). In addition, the price of gilts has fallen further due to a reversal of the blip up in gilt prices in early August after further quantitative easing was announced - which initially drove yields down, (i.e. prices up). Another factor that is likely to dampen gilt investor sentiment will be a likely increase in the supply of gilts if the Chancellor slows down the pace of austerity and the pace of reduction in the budget deficit in the Autumn Statement - as he has already promised. However, if there was a more serious escalation of upward pressure on gilt yields, this could prompt the MPC to respond by embarking on even more quantitative easing, (purchases of gilts), to drive gilt yields back down.

Brexit timetable and process

- March 2017: UK government notifies the European Council of its intention to leave under the Treaty on European Union Article 50
- March 2019: two-year negotiation period on the terms of exit. This period can be extended with the agreement of all members i.e. not that likely.
- UK continues as an EU member during this two-year period with access to the single market and tariff free trade between the EU and UK.
- The UK and EU would attempt to negotiate, among other agreements, a bi-lateral trade agreement over that period.
- The UK would aim for a negotiated agreed withdrawal from the EU, although the UK may also exit without any such agreements.
- If the UK exits without an agreed deal with the EU, World Trade Organisation rules and tariffs could apply to trade between the UK and EU - but this is not certain.
- On exit from the EU: the UK parliament would repeal the 1972 European Communities Act.

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.	--	--

Local Authority wholly owned trading company	--	In-house
--	----	----------

Approved Countries for Investments

AAA

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

AA+

- Finland
- Hong Kong
- U.S.A.

AA

- Abu Dhabi (UAE)
- France
- Qatar
- U.K.

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

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.

The 2017 review shows that the remaining useful life of our assets is now 28 years. By using an average life of 28 years for our assets equates to an annual provision of 4% 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.