Appendix 1

Warwickshire County Council
Treasury Management Strategy Statement
2020/21

Contents

Annex A

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 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 2020/21

1.9 The proposed strategy for 2020/21 is based upon the treasury officers' views on interest rates, supplemented with leading market forecasts provided by the Council's treasury adviser, Link Asset Services.

1.8 The strategy covers:

- Treasury limits for 2020/21 to 2022/23
- Prudential Indicators
- Prospects for Interest Rates
- Borrowing Strategy
- Debt Rescheduling
- Annual Investment Strategy
- Minimum Revenue Provision Strategy

Balanced Budget Requirement

1.9 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

1.10 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 came into effect in January 2018 and re-classified investors into 'professional' or 'retail' clients. The conditions of being a professional client continue to be met and this has enabled the treasury asset allocation to continue without disruption.

2 Treasury Limits for 2020/21 to 2022/23

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 Annex B of this report. Explanations of the terminology employed can be found in Annex C.

3 Prudential Indicators for 2020/21 to 2022/23

3.1 The Prudential and Treasury Indicators relevant to the setting of an integrated Treasury Management Strategy are set out at Annex B to this report.

3.2 Council will approve the Prudential Indicators as part of the budget resolution for the 2020/21 budget and associated medium term financial strategy.

3.3 The limit for investments of more than 365 days remains at £60m but total cash balances are expected to reduce and therefore this limit will become a higher proportion of the total investments made. This limit also includes reference to the Threadneedle Social Bond Fund and CCLA Property Fund. Although both of those funds can be liquidated in a shorter timescale than one year they are by their nature longer term invests.

3.4 The prudential indicators will be monitored through the year.

4 Prospects for Interest Rates

4.1 The Council has appointed Link 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 Links view on the future Bank Rate.

Link Bank Rate Forecast

	Bank Rate %
Dec 2019 to Feb 2021	0.75
Mar 2021 to May 2022	1.00
Jun 2022 -	1.25

4.2 A detailed view of the current economic background is contained within Annex D to this report.

5 Borrowing Strategy

5.1 The Council has held an over borrowed position, but this is forecast to change based on current forecasts of capital expenditure. The potential need for borrowing will be assessed and kept under review within the borrowing strategy set out below.

5.2 The Link forecasts for the Public Works Loan Board (PWLB) new borrowing rates are as follows:

Annual Average %	**PWLB Borrowing Rates % (including *certainty rate adjustment)**		
	5 year	**25 year**	**50 year**
Dec 2019	2.30	3.20	3.10
Mar 2020	2.40	3.30	3.20
Jun 2020	2.40	3.40	3.30
Sep 2020	2.50	3.40	3.30
Dec 2020	2.50	3.50	3.40
Mar 2021	2.60	3.60	3.50
Jun 2021	2.70	3.70	3.60

Sep 2021	2.80	3.70	3.60
Dec 2021	2.90	3.80	3.70
Mar 2022	2.90	3.90	3.80
Jun 2022	3.00	4.00	3.90
Sep 2022	3.10	4.00	3.90
Dec 2022	3.20	4.10	4.00
Mar 2023	3.20	4.10	4.00

* The Government has reduced by 20 basis points (0.20%) the interest rates on loans to principal local authorities who provide information as required on their plans for long-term borrowing and associated capital spending (the Certainty Rate).

5.3 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 will be considered where available, to ensure the best rates and to maintaining an appropriate balance between PWLB and market debt in the debt portfolio.

- PWLB borrowing for periods under ten years will be considered 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.

5.4 Against this background and the risks within the economic forecast, caution will be adopted with treasury operations. The Assistant Director 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 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, a likely action will be 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

5.5 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.

5.6 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 of temporarily increasing cash balances until cash is required to finance capital expenditure, and the consequent increase in exposure to counterparty and other risks.

Scheme of Delegation

5.7 The scheme of Delegation for Treasury Management Strategy decision making and overview/scrutiny are shown in Annex E.

6 Debt Rescheduling

6.1 As short term borrowing rates are 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 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, for example reducing concentration of the debt maturity profile.

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 option to make repayment of some external debt to the PWLB in order to reduce the difference between its gross and net debt position will be kept under review. However, the penalty premiums that would be incurred by doing so means there currently is no net financial benefit from such early repayment. The Municipal Bonds Agency offers loans to local authorities and is on our list of options that we may consider.

6.5 A £20m repayment of PWLB debt is due and will be paid in 2020/21.

6.6 Following the decision by the PWLB to increase their margin over gilt yields by 1% to 1.8% on loans to local authorities, consideration will be given to other options for debt if external borrowing becomes necessary:

- Loans from other local authorities.
- Loans from financial institutions.
- Loans from the Municipal Bonds Agency.
- Loans from Banks.
- Loans from Pension Funds.
- Loans from Insurance Companies.

7 Annual Treasury Investment Strategy

Investment Policy

7.1 The Council will have regard to the MHCLG’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 treasury management 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 Annex F, the minimum acceptable credit quality of counterparties for inclusion on the lending list. This also includes limits on the amount to be invested in a single counterparty per investment type. The changes to these criteria are summarised in the table below:

	Specified Investments
Money Market Funds	These are now split into one type for money market funds with an AAA rating, and a separate type for ultra short duration bond funds (USDFs) with an AA rating.
Institutional Limits	The following new limits are proposed to manage exposure to counterparty risk. MMFs - £60m per institution USDF's - £40m per institution Previously there was no set limit.
	Non Specified Investments
Aggregate Limits	A limit of £80m has been placed on the total amount that could be invested in non-specified investments in aggregate.
Fund Limits	Limits on investments per type of fund have been introduced as follows: CCLA Property Fund £15m Threadneedle Social Bond Fund £40m Local Authority Trading Companies £3m All other types of fund £15m

7.4 It is recognised 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. The Council will engage with its advisors to assist in this.

7.5 Other information sources used will be used including the financial press, share price and other such information pertaining to the banking sector in order to scrutinise 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 Annex F 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. A separate Investment Strategy covers investments for non treasury purposes.

7.8 The Council currently invests in some pooled funds which will are affected by a change in accounting requirements under IFRS9 which will mean that from April 2023 onwards changes in the market value of assets held will be chargeable to the income and expenditure account directly whereas at present they stay in the balance sheet. The CCLA Property Fund falls within this category will be reviewed during 2020 and the potential impact of changes on the income and expenditure account will be stress tested to assess potential future risk. The Council holds a Financial Instruments Reserve to provide the ability to manage volatility and reduce the risk of an unplanned impact on the income and expenditure account. Changes in the Threadneedle Social Bond Fund are already required to be put to the income and expenditure account.

Creditworthiness Policy

7.9 The first principle governing the Council's investment criteria is the security of its investments. To mitigate security risk the Council will ensure that it:

- Maintains a policy covering both the categories and types of investment that can be invested in.
- Maintains criteria for choosing investment counterparties with adequate security.
- Maintains a process for the monitoring of their security.

7.10 The second principle is ensuring liquidity. The Council will ensure 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 sum invested

7.11 The Assistant Director 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.

7.12 Credit rating information is supplied by Link, our external 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

7.13 The Council 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 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 Annex G. This list will be amended by officers as and when ratings change in accordance with this policy.

Investment Strategy (Non Treasury Investments)

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

7.15 For its cash flow generated balances, the Council will seek to utilise its balances in order to benefit from the compounding of interest.

End of Year Investment Report

7.16 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

7.17 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 Annex F. External fund managers actively used during the last year are listed below. Officers will periodically review the position, performance, and costs of external fund managers, and may meet with client relationship managers or fund managers as appropriate.

Fund Manager	**Product/Fund Name**
CCLA	Public Sector Deposit Fund Local Authority Property Fund
Aberdeen Asset Management	Ultra Short Duration fund Liquidity Fund
Federated Investors	Sterling Liquidity Fund
Columbia Threadneedle	UK Social Bond Fund
BlackRock	Government Gilt Fund

Policy on the Use of External Service Providers

7.18 The Council uses Link 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. The Council also takes advice from other advisers from time to time as appropriate, for example from the Pension Fund actuaries and financial advisers in respect of pension fund payments, and may take other external advice in respect of for example interactions with local authority companies.

Role of the Section 151 Officer

7.19 The detailed responsibilities of the Section 151 Officer in respect of Treasury Management are set out at Annex H.

Pension Fund Cash

7.20 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.

Early Payment of Pension Fund Contributions

[Section 7.21-7.24 were approved by a Leader Decision on the 29th April 2020].

7.21 The Council intends to pay its 3-year pension fund contributions for the valuation period 2020/21-2022/23 in one lump sum at the start of the valuation period, with the preference being to do this in April 2020. An early payment in April 2020 will be given a discount rate of 3.7% compared to cash payments made at normal monthly intervals. The benefits, costs, and risks this are set out below:

7.22 Benefits

- Reducing the amount of cash being invested in short term treasury deposits and loans that provide relatively low returns.

- A gross saving of £4.7m in the total cash contributions required over the valuation period.

Total Payments in Normal Monthly Contributions	Total Payment Single Lump Sum Contribution	Gross Difference
£89.2m	£84.5m	£4.7m

- A net one-off saving of £3.3m would be made after having regard to the loss of assumed returns that would otherwise have been made on the cash before it was paid out in pension contributions (refer to Section 7.22 below for alternative returns).
- The total early payment described above relates only to Warwickshire County Council and excludes a small number of independent schools and contractors who if they had been included would see the total early payment figure being £85.8m.

7.22 Early payment entails the following costs and risks:

- Timing / volatility risk – Pension fund investments provide a higher rate of return but at a higher level of volatility. Therefore although over time the returns are likely to be better, at any one moment in time the value of the fund could be unusually high or low and across shorter period of time the return could be more distant above or below the expected average. By placing all the cash into the fund at one moment in time the exposure to volatility and therefore to losses is higher. However making the payments more spread out to reduce this risk would also reduce the opportunity to benefit.

- The pension fund contributions to cover future service costs normally vary with the payroll bill by being calculated as a % of payroll but with an up-front payment this cannot happen naturally. Therefore the pension fund will reserve the right to ask for top up payments if the total payroll costs increase significantly enough. This needs to be planned for but this would amount to a correction for costs that would have to be paid anyway – it would not mean a loss. The Council will undertake to pay any such adjustments and holds a Pension Deficit Reserve to assist in providing cover for future pension fund deficits.

- The County Council will run lower cash balances, however the Council will have the facilities to maintain enough cash to manage its operations. The cash position will also gradually over the 3 year period move back to what it would have been if monthly payments had been made, but adjusted to reflect the lower total amount required to be paid.

- The County Council will earn less interest on cash balances which will offset the benefits. For example, if returns of 1.05% were earned on cash balances (in line with the Quarter 2 position in 2018/19) then the interest foregone would amount to £1.4m and this would offset the reduction in pension fund contribution payments above.

- The Council could not invest this cash in other new investment opportunities. For example if the funds were to be invested in high return stocks or property funds. However other opportunities entail different risks, for example with property funds entailing liquidity risks and stocks entailing higher volatility risks. As early payment action has an effect over a period of a few years with most of the impact being in the early part of that time frame it does not preclude the Council from considering wider opportunities in the longer term. There is an intention to review wider opportunities during 2020/21.

- Scenarios in which the Council would suffer reductions in benefits or incur losses are:

    - If there is volatility in the pension fund investment valuation – in particular an if there are significant falls in volatile assets after the point of payment.

    - If new treasury investment opportunities with a better risk/return profile become available elsewhere then the cash to pursue those opportunities would be less or would be delayed.

    - If lump sum payment is made later than April 2020 then the expected financial benefit would be less as the duration of the benefit would be less, the amounts would be less, and the discount rate may be less. However exposure to timing and volatility risk would also be less.

    - If a loss were experienced this would manifest in the next pension fund valuation and would be recovered through future contributions to the pension fund as determined by the next valuation.

7.23 The early payment is a cash flow measure, it does not mean the Council is paying more than it should into the pension fund. From the period April 2020 to March 2023 the Council's cash position will gradually move back to the same position that it would have been in March 2023, except for the net benefit or loss arising from the early payment.

7.24 The potential to benefit is greatest in April 2020, however the strategy provides the flexibility to make an early payment later or not at all if the right conditions are not met. A payment will only be made and the timing of any payment decided on subject to the following conditions being met.

- Obtaining legal/counsel confirmation that the payment is lawful.
- That external auditors are content with the payment and its accounting treatment.
- Having the approval of the Section 151 officer and Monitoring Officer.
- Having independent advice regarding the risks and being satisfied that the risks are appropriate.
- Having the agreement of the Pension Fund Actuaries.

- Having a Rates and Adjustment Certificate from the Pension Fund actuaries setting out the amount payable, which may be varied from the above quoted figure to reflect the final Warwickshire County Council related payment.
- That the payment can be accommodated within the overall treasury position, having regard to wider investment and borrowing commitments.

Target Returns

7.25 A weighted average target return on treasury management investments will be set to exceed the 30 day LIBID rate by 0.46%. This will maintain the current overall levels of return above LIBID, having regard to the first priorities being security and liquidity before return. The Council holds an interest rate volatility reserve to manage fluctuations in interest rates.

8. Ethical Investing Policy and Climate Change

8.1 As a responsible investor, the Council is committed to considering environmental, social, and governance issues, and has a particular interest in taking action against climate change and pursuing activities that have a positive social impact.

8.2 However, the treasury management function is controlled by statute and by professional guidelines and the first priorities of treasury must remain security, liquidity, and yield.

8.3 With those priorities kept in place, the following activity will be undertaken in respect of climate change and responsible investing. Steps will be taken to:

- Ensure an understanding of the degree to which investments may contribute towards climate change. This may take the form of measuring the carbon footprint or some similar measure.

- Identify and understand the extent to which investments are exposed to risks driven by climate change, for example investments in assets at risk of weather change (e.g. property or infrastructure at risk of flooding), assets at risk of becoming stranded (e.g. fossil fuel investments), or assets at risk from geopolitical risks driven by climate change (e.g. water access, the capacity for food production, or economic conflict)..

- Keep abreast of new investment opportunities that have regard to ethical investing and climate change as this is a quickly developing arena.

- Understand the ESG policies of funds when considering new investment opportunities.

9. Non Treasury Management Investments

9.1 A separate document entitles “Investment Strategy” covers the Council’s position in respect of non-treasury management investments held for service reasons or commercial reasons.

10 Minimum Revenue Provision

10.1 The Council’s policy on Minimum Revenue Provision (MRP) is shown in Annex I.

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Prudential Indicators

Annex B

(1). AFFORDABILITY PRUDENTIAL INDICATORS	2018/19 Actual	2019/20 estimate	2020/21 estimate	2021/22 estimate	2022/23 estimate
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Capital Expenditure	84,077	146,555	210,980	94,697	74,319
	%	**%**	**%**	**%**	**%**
Ratio of financing costs to net revenue stream	6.99	6.78	6.60	7.22	7.67
Gross borrowing requirement	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Gross Debt	362,274	352,274	332,274	332,275	332,275
Capital Financing Requirement as at 31 March	301,581	304,499	358,877	402,326	416,490
Under/(Over) Borrowing	(60,693)	(47,775)	26,603	70,051	84,215
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
In year Capital Financing Requirement	(12,367)	2,918	54,378	43,448	14,164
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Capital Financing Requirement as at 31 March	301,581	304,499	358,877	402,326	416,490

PRUDENTIAL INDICATOR (2). TREASURY MANAGEMENT PRUDENTIAL INDICATORS	2018/19 estimate	2019/20 estimate	2020/21 estimate	2021/22 estimate	2022/23 estimate
Authorised limit for external debt -	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Borrowing	516,818	438,231	515,485	543,623	560,620
other long term liabilities	12,000	12,000	12,000	12,000	12,000
TOTAL	**528,818**	**450,231**	**527,485**	**555,623**	**572,620**
Operational boundary for external debt -	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Borrowing	430,681	365,192	429,570	453,019	467,183
other long term liabilities	10,000	10,000	10,000	10,000	10,000
TOTAL	**440,681**	**375,192**	**439,570**	**463,019**	**477,183**
Upper limit for fixed interest rate exposure					
Net principal re fixed rate borrowing / fixed term investments	100%	100%	100%	100%	100%
Upper limit for variable rate exposure					
Net principal re fixed rate borrowing / fixed term investments	25%	25%	25%	25%	25%
Upper limit for total principal sums invested for over 365 days	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
(per maturity date)	£60,000	£60,000	£60,000	£60,000	£60,000

Maturity structure of new borrowing during year	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%

Annex C

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.

Annex D

UK. Brexit. 2019 has been a year of upheaval on the political front as Theresa May resigned as Prime Minister to be replaced by Boris Johnson on a platform of the UK leaving the EU on 31 October 2019, with or without a deal. However, MPs blocked leaving on that date and the EU agreed an extension to 31 January 2020. In late October, MPs approved an outline of a Brexit deal to enable the UK to leave the EU on 31 January. Now that the Conservative Government has gained a large overall majority in the **general election** on 12 December, this outline deal will be passed by Parliament by that date. However, there will still be much uncertainty as the detail of a trade deal will need to be negotiated by the current end of the transition period in December 2020, which the Prime Minister has pledged he will not extend. This could prove to be an unrealistically short timetable for such major negotiations that leaves open two possibilities; one, the need for an extension of negotiations, probably two years, or, a no deal Brexit in December 2020.

GDP growth has taken a hit from Brexit uncertainty during 2019; quarter three 2019 surprised on the upside by coming in at +0.4% q/q, +1.1% y/y. However, the peak of Brexit uncertainty during the final quarter appears to have suppressed quarterly growth to probably around zero. The economy is likely to tread water in 2020, with tepid growth around about 1% until there is more certainty after the trade deal deadline is passed.

While the Bank of England went through the routine of producing another **quarterly Inflation Report,** (now renamed the Monetary Policy Report), on 7 November, it is very questionable how much all the writing and numbers were worth when faced with the uncertainties of where the UK will be after the general election. The Bank made a change in their Brexit assumptions to now include a deal being eventually passed. Possibly the biggest message that was worth taking note of from the Monetary Policy Report, was an increase in concerns among MPC members around weak global economic growth and the potential for Brexit uncertainties to become entrenched and so delay UK economic recovery. Consequently, the MPC voted 7-2 to maintain Bank Rate at 0.75% but two members were sufficiently concerned to vote for an immediate Bank Rate cut to 0.5%. The MPC warned that if global growth does not pick up or Brexit uncertainties intensify, then a rate cut was now more likely. Conversely, if risks do recede, then a more rapid recovery of growth will require gradual and limited rate rises. The speed of recovery will depend on the extent to which uncertainty dissipates over the final terms for trade between the UK and EU and by how much global growth rates pick up. The Bank revised its inflation forecasts down – to 1.25% in 2019, 1.5% in 2020, and 2.0% in 2021; hence, the MPC views inflation as causing little concern in the near future.

The **MPC meeting of 19 December** repeated the previous month's vote of 7-2 to keep Bank Rate on hold. Their key view was that there was currently 'no evidence about the extent to which policy uncertainties among companies and households had declined' i.e. they were going to sit on their hands and see how the economy goes in the next few months. The two members who voted for a cut were concerned that the labour market was faltering. On the other hand, there was a clear warning in the minutes that the MPC were concerned that "domestic unit labour costs have continued to grow at rates above those consistent with meeting the inflation target in the medium term".

If economic growth were to weaken considerably, the MPC has relatively little room to make a big impact with Bank Rate still only at 0.75%. It would therefore, probably suggest that it would be up to the Chancellor to provide help to support growth by way of a **fiscal boost** by e.g. tax cuts, increases in the annual expenditure budgets of government departments and services and expenditure on infrastructure projects, to boost the economy. The Government has already made moves in this direction and it made significant promises in its election manifesto to increase government spending by up to £20bn p.a., (this would add about 1% to

GDP growth rates), by investing primarily in infrastructure. This is likely to be announced in the next Budget, probably in February 2020. The Chancellor has also amended the fiscal rules in November to allow for an increase in government expenditure.

As for **inflation** itself, CPI has been hovering around the Bank of England's target of 2% during 2019, but fell again in both October and November to a three-year low of 1.5%. It is likely to remain close to or under 2% over the next two years and so, it does not pose any immediate concern to the MPC at the current time. However, if there was a hard or no deal Brexit, inflation could rise towards 4%, primarily because of imported inflation on the back of a weakening pound.

With regard to the **labour market,** growth in numbers employed has been quite resilient through 2019 until the three months to September where it fell by 58,000. However, there was an encouraging pick up again in the three months to October to growth of 24,000, which showed that the labour market was not about to head into a major downturn. The unemployment rate held steady at a 44-year low of 3.8% on the Independent Labour Organisation measure in October. Wage inflation has been steadily falling from a high point of 3.9% in July to 3.5% in October (3-month average regular pay, excluding bonuses). This meant that in real terms, (i.e. wage rates higher than CPI inflation), earnings grew by about 2.0%. As the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. The other message from the fall in wage growth is that employers are beginning to find it easier to hire suitable staff, indicating that supply pressure in the labour market is easing.

USA. President Trump's massive easing of fiscal policy in 2018 fuelled a temporary boost in consumption in that year which generated an upturn in the rate of growth to a robust 2.9% y/y. **Growth** in 2019 has been falling after a strong start in quarter 1 at 3.1%, (annualised rate), to 2.0% in quarter 2 and then 2.1% in quarter 3. The economy looks likely to have maintained a growth rate similar to quarter 3 into quarter 4; fears of a recession have largely dissipated. The strong growth in employment numbers during 2018 has weakened during 2019, indicating that the economy had been cooling, while inflationary pressures were also weakening. However, CPI inflation rose from 1.8% to 2.1% in November, a one year high, but this was singularly caused by a rise in gasoline prices.

The Fed finished its series of increases in rates to 2.25 – 2.50% in December 2018. In July 2019, it cut rates by 0.25% as a 'midterm adjustment' but flagged up that this was not intended to be seen as the start of a series of cuts to ward off a downturn in growth. It also ended its programme of quantitative tightening in August, (reducing its holdings of treasuries etc.). It then cut rates by 0.25% again in September and by another 0.25% in its October meeting to 1.50 – 1.75%.. At its September meeting it also said it was going to **start buying Treasuries again**, although this was not to be seen as a resumption of quantitative easing but rather an exercise to relieve liquidity pressures in the repo market. Despite those protestations, this still means that the Fed is again expanding its balance sheet holdings of government debt. In the first month, it will buy $60bn, whereas it had been reducing its balance sheet by $50bn per month during 2019. As it will be buying only short-term (under 12 months) Treasury bills, it is technically correct that this is not quantitative easing (which is purchase of long term debt). The Fed left rates unchanged in December. However, the accompanying statement was more optimistic about the future course of the economy so this would indicate that further cuts are unlikely.

Investor confidence has been badly rattled by the progressive ramping up of increases in tariffs President Trump has made on Chinese imports and China has responded with increases in tariffs on American imports. This **trade war** is seen as depressing US, Chinese and world growth. In the EU, it is also particularly impacting Germany as exports of goods and services

are equivalent to 46% of total GDP. It will also impact developing countries dependent on exporting commodities to China.
However, in November / December, progress has been made on agreeing a phase one deal between the US and China to roll back some of the tariffs; this gives some hope of resolving this dispute.

EUROZONE. **Growth** has been slowing from +1.8 % during 2018 to around half of that in 2019. Growth was +0.4% q/q (+1.2% y/y) in quarter 1, +0.2% q/q (+1.2% y/y) in quarter 2 and then +0.2% q/q, +1.1% in quarter 3; there appears to be little upside potential in the near future. German GDP growth has been struggling to stay in positive territory in 2019 and fell by -0.1% in quarter 2; industrial production was down 4% y/y in June with car production down 10% y/y. Germany would be particularly vulnerable to a no deal Brexit depressing exports further and if President Trump imposes tariffs on EU produced cars.

The European Central Bank (ECB) ended its programme of quantitative easing purchases of debt in December 2018, which then meant that the central banks in the US, UK and EU had all ended the phase of post financial crisis expansion of liquidity supporting world financial markets by quantitative easing purchases of debt. However, the downturn in EZ growth in the second half of 2018 and into 2019, together with inflation falling well under the upper limit of its target range of 0 to 2%, (but it aims to keep it near to 2%), has prompted the ECB to take new measures to stimulate growth. At its March meeting it said that it expected to leave interest rates at their present levels "at least through the end of 2019", but that was of little help to boosting growth in the near term. Consequently, it announced a **third round of TLTROs**; this provides banks with cheap borrowing every three months from September 2019 until March 2021 that means that, although they will have only a two-year maturity, the Bank was making funds available until 2023, two years later than under its previous policy. As with the last round, the new TLTROs will include an incentive to encourage bank lending, and they will be capped at 30% of a bank's eligible loans. However, since then, the downturn in EZ and world growth has gathered momentum; at its meeting on 12 September it cut its deposit rate further into negative territory, from -0.4% to -0.5%, and announced a **resumption of quantitative easing purchases of debt for an unlimited period.** At its October meeting it said these purchases would start in November at €20bn per month - a relatively small amount compared to the previous buying programme. It also increased the maturity of the third round of TLTROs from two to three years. However, it is doubtful whether this loosening of monetary policy will have much impact on growth and, unsurprisingly, the ECB stated that governments would need to help stimulate growth by 'growth friendly' fiscal policy.

There were no policy changes in the December meeting, which was chaired for the first time by the new President of the ECB, Christine Lagarde. However, the outlook continued to be down beat about the economy; this makes it likely there will be further monetary policy stimulus to come in 2020. She did also announce a thorough review of how the ECB conducts monetary policy, including the price stability target. This review is likely to take all of 2020.

On the political front, Austria, Spain and Italy have been in the throes of **forming coalition governments** with some unlikely combinations of parties i.e. this raises questions around their likely endurance. The latest results of German state elections has put further pressure on the frail German CDU/SDP coalition government and on the current leadership of the CDU. The results of the Spanish general election in November have not helped the prospects of forming a stable coalition.

CHINA. Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and shadow banking systems. In addition, there still needs to be a greater switch from investment in industrial capacity, property construction and infrastructure to consumer goods production.

JAPAN - has been struggling to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

WORLD GROWTH. Until recent years, world growth has been boosted by increasing **globalisation** i.e. countries specialising in producing goods and commodities in which they have an economic advantage and which they then trade with the rest of the world. This has boosted worldwide productivity and growth, and, by lowering costs, has also depressed inflation. However, the rise of China as an economic superpower over the last thirty years, which now accounts for nearly 20% of total world GDP, has unbalanced the world economy. The Chinese government has targeted achieving major world positions in specific key sectors and products, especially high tech areas and production of rare earth minerals used in high tech products. It is achieving this by massive financial support, (i.e. subsidies), to state owned firms, government directions to other firms, technology theft, restrictions on market access by foreign firms and informal targets for the domestic market share of Chinese producers in the selected sectors. This is regarded as being unfair competition that is putting western firms at an unfair disadvantage or even putting some out of business. It is also regarded with suspicion on the political front as China is an authoritarian country that is not averse to using economic and military power for political advantage. The current trade war between the US and China therefore needs to be seen against that backdrop. It is, therefore, likely that we are heading into a period where there will be a **reversal of world globalisation and a decoupling of western countries** from dependence on China to supply products. This is likely to produce a backdrop in the coming years of weak global growth and so weak inflation. **Central banks are, therefore, likely to come under more pressure to support growth by looser monetary policy measures and this will militate against central banks increasing interest rates**.

The trade war between the US and China is a major concern to **financial markets** due to the synchronised general weakening of growth in the major economies of the world, compounded by fears that there could even be a recession looming up in the US, though this is probably overblown. These concerns resulted in **government bond yields** in the developed world falling significantly during 2019. If there were a major worldwide downturn in growth, central banks in most of the major economies will have limited ammunition available, in terms of monetary policy measures, when rates are already very low in most countries, (apart from the US). There are also concerns about how much distortion of financial markets has already occurred with the current levels of quantitative easing purchases of debt by central banks and the use of negative central bank rates in some countries. The latest PMI survey statistics of economic health for the US, UK, EU and China have all been predicting a downturn in growth; this confirms investor sentiment that the outlook for growth during the year ahead is weak.

INTEREST RATE FORECASTS

The interest rate forecasts provided by Link Asset Services in paragraph 3.3 are **predicated on an assumption of an agreement being reached on Brexit between the UK and the EU.** On this basis, while GDP growth is likely to be subdued in 2019 and 2020 due to all the uncertainties around Brexit depressing consumer and business confidence, an agreement on the detailed terms of a trade deal is likely to lead to a boost to the rate of growth in subsequent years. This could, in turn, increase inflationary pressures in the economy and so cause the Bank of England to resume a series of gentle increases in Bank Rate. Just how fast, and how far, those increases will occur and rise to, will be data dependent. The forecasts in this report assume a modest recovery in the rate and timing of stronger growth and in the corresponding response by the Bank in raising rates.

- In the event of an **orderly non-agreement exit in December 2020**, it is likely that the Bank of England would take action to cut Bank Rate from 0.75% in order to help economic growth deal with the adverse effects of this situation. This is also likely to cause short to medium term gilt yields to fall.
- If there were a **disorderly Brexit**, then any cut in Bank Rate would be likely to last for a longer period and also depress short and medium gilt yields correspondingly. Quantitative easing could also be restarted by the Bank of England. It is also possible that the government could act to protect economic growth by implementing fiscal stimulus.

The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably even, but dependent on a successful outcome of negotiations on a trade deal.
- The balance of risks to increases in Bank Rate and shorter term PWLB rates are broadly similarly to the downside.
- In the event that a Brexit deal was agreed with the EU and approved by Parliament, the balance of risks to economic growth and to increases in Bank Rate is likely to change to the upside.

One risk that is both an upside and downside risk, is that all central banks are now working in very different economic conditions than before the 2008 financial crash as there has been a major increase in consumer and other debt due to the exceptionally low levels of borrowing rates that have prevailed since 2008. This means that the neutral rate of interest in an economy, (i.e. the rate that is neither expansionary nor deflationary), is difficult to determine definitively in this new environment, although central banks have made statements that they expect it to be much lower than before 2008. Central banks could therefore either over or under do increases in central interest rates.

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

- **Brexit –** if it were to cause significant economic disruption and a major downturn in the rate of growth.
- **Bank of England** takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- A resurgence of the **Eurozone sovereign debt crisis.** In 2018, Italy was a major concern due to having a populist coalition government which made a lot of anti-austerity and anti-EU noise. However, in September 2019 there was a major change in the coalition governing Italy which has brought to power a much more EU friendly government; this has eased the pressure on Italian bonds. Only time will tell whether this new coalition based on an unlikely alliance of two very different parties will endure.
- Weak capitalisation of some **European banks**, particularly Italian banks.
- **German minority government.** In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. The CDU has done badly in recent state elections but the SPD has done particularly badly and this has raised a major question mark over continuing to support the CDU. Angela Merkel has stepped down from being the CDU party leader but she intends to remain as Chancellor until 2021.
- **Other minority EU governments.** Austria, Finland, Sweden, Spain, Portugal, Netherlands and Belgium also have vulnerable minority governments dependent on coalitions which could prove fragile.
- **Austria, the Czech Republic, Poland and Hungary** now form a strongly anti-immigration bloc within the EU. There has also been rising anti-immigration sentiment in Germany and France.

- In October 2019, the IMF issued a report on the World Economic Outlook which flagged up a synchronised slowdown in world growth. However, it also flagged up that there was **potential for a rerun of the 2008 financial crisis**, but his time centred on the huge debt binge accumulated by corporations during the decade of low interest rates. This now means that there are corporates who would be unable to cover basic interest costs on **some $19trn of corporate debt in major western economies,** if world growth was to dip further than just a minor cooling. This debt is mainly held by the shadow banking sector i.e. pension funds, insurers, hedge funds, asset managers etc., who, when there is $15trn of corporate and government debt now yielding negative interest rates, have been searching for higher returns in riskier assets. Much of this debt is only marginally above investment grade so any rating downgrade could force some holders into a fire sale, which would then depress prices further and so set off a spiral down. The IMF's answer is to suggest imposing higher capital charges on lending to corporates and for central banks to regulate the investment operations of the shadow banking sector. In October 2019, the deputy Governor of the Bank of England also flagged up the dangers of banks and the shadow banking sector lending to corporates, especially highly leveraged corporates, which had risen back up to near pre-2008 levels.
- **Geopolitical risks,** for example in North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates

- **Brexit** – if agreement was reached all round that removed all threats of economic and political disruption between the EU and the UK.
- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.

UK inflation, whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

Annex E

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.
- Receiving and reviewing monitoring reports and acting on recommendations.

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

- Overview and scrutiny of treasury management policy, practice, and activity as required.

Annex F

Specified Investments

Specified investments are those with a high credit rating and maturities up to maximum of one year. All these investments are sterling denominated.

	Minimum 'High' Credit Criteria (Fitch Ratings)	**Limits Per Institution**	**Use**
DMO Deposit Facility	--	No Limit	In-house
Term deposits: Local Authorities	--	£10m	In-house
Nationalised Banks	Short-term F1, Support 1	£20m	In-house and External Manager
Term deposits: UK Banks	Short-term F1, Long-term A, Viability a, Support 3	£20m	In-house and External Manager
Term deposits: Bank Council uses for current account	--	£20m	In-house and External Manager
Term deposits: UK Building Societies	Top five largest societies as reported annually. (To be continually monitored)	£20m	In-house and External Manager
Term deposits: Overseas Banks	Short-term F1+, Long-term AA, Viability aa, Support 1	£20m	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	£20m	External Manager
Money Market Funds CCLA PSDF – LVNAV Aberdeen Liquidity Fund – LVNAV BlackRock – CNAV	AAA	£60m	In-house and External Manager
Ultra Short Dated Bond Funds Aberdeen Short Duration – VNAV Federated - VNAV	AA	£40m	In-house and External Manager
UK Government Gilts, Treasury Bills	--	No Limit	External Manager
Gilt Funds and Bond Funds	Long-term A	No Limit	External Manager

Non-Specified Investments

Non-specified investments are those with lower credit quality, and may be for periods in excess of one year. These investments may be more complex instruments which require greater consideration by members and officers before being authorised for use.

The table below sets out limits for each type of investment (so the total limit when all investments with all institutions are added together).

In addition the total amount invested in non-specified investments is limited to £80m.

	Minimum Credit Criteria	**Limit**	**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	£15m	In-house and External Manager
Fixed Term Deposit with Variable Rates and Variable Maturities	Short-term F1, Long-term A, Viability a+, Support 3	£15m	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	£15m	External Manager
UK Government Gilts with maturities in excess of 1 year	--	£15m	External Manager
Local Government Association Municipal Bond Agency	--	£15m	--
CCLA Property Fund	--	£15m	--
Threadneedle Social Bond Fund	--	£40m	--
Local Authority wholly owned trading company	--	£3m	In-house

Annex G

Approved Countries for Investments

AAA

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

AA+

- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- France
- Hong Kong
- U.K.

Annex H

The Treasury Management Role of the S151 (Responsible) Officer: Strategic Director - Resources

- 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.

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.