DECISION-MAKER:		GOVERNANCE COMMITTEE COUNCIL		
SUBJECT:		TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL LIMITS 2015/16 TO 2017/18		
DATE OF DECISION:		9 FEBRUARY 2015 11 FEBRUARY 2015		
REPORT OF:		CHIEF FINANCIAL OFFICER		
CONTACT DETAILS				
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STATEMENT OF CONFIDENTIALITY
NOT APPLICABLE

BRIEF SUMMARY

This report explains the context within which the Council's treasury management activity operates and sets out a proposed strategy for the coming year in relation to the Council's cash flow, investment and borrowing, and the management of the numerous risks related to this activity.

The core elements of the 2015/16 strategy are :

- To continue to make use of short term variable rate debt to take advantage of the current market conditions of low interest rates.
- To constantly review longer term forecasts and to lock in to longer term rates through a variety of instruments, as appropriate during the year, in order to provide a balanced portfolio against interest rate risk.
- To secure the best short term rates for borrowing and investments consistent with maintaining flexibility and liquidity within the portfolio.
- To invest surplus funds prudently, the Council's priorities being:
    - Security of invested capital
    - Liquidity of invested capital
    - An optimum yield which is commensurate with security and liquidity.
- To approve borrowing limits that provide for debt restructuring opportunities and to pursue debt restructuring where appropriate and within the Council's risk boundaries

With overall annual expenditure in excess of £600M and an extensive capital programme, the Council is required to actively manage its cash-flows on a daily basis. The requirement to invest or to borrow monies to finance capital programmes, and to cover daily operational needs, is an integral part of daily cash and investment portfolio management.

As at 31 March 2015 the Council's gross external debt is expected to be £360M and the total value of investments is forecast at £70M. The Balance Sheet position as at 31

March 2014 showed the value of debt as £352M and the value of investments as £69M.

The Council's Capital Financing Requirement (CFR), which measures the Council's underlying need to borrow for capital purposes and represents the cumulative capital expenditure which has not yet been paid for from either revenue or capital resources, is a key driver of the borrowing strategy. The projected CFR for 31 March 2015 is £423M, of which £266M is attributed to the General Fund and the remaining £157M to the Housing Revenue Account (HRA).

The Council's current strategy is to minimise borrowing to below its CFR, the difference representing balances, reserves, provisions and working capital. This approach lowers interest costs, reduces credit risk and relieves pressure on the Council's counterparty list. Borrowing is restricted to a few highly secure sources which include the Public Works Loan Board (PWLB), commercial banks, the European Investment Bank, structured finance, and products associated with other local authorities. Additionally, borrowing is restricted by two limits, the Authorised Limit, (a statutory limit that sets the maximum level of external borrowing on a gross basis), and the Operational Boundary, (which is determined by both the estimated CFR and day to day cash flow movements). For 2015/16 the proposed Authorised Limit is £727M and proposed Operational Boundary is £553M. These are substantially higher than our anticipated actual level of debt but they allow for debt restructure to be undertaken if an appropriate opportunity arises, which may require taking new borrowing in advance of paying off existing loans.

Throughout the year, capital expenditure levels, market conditions and interest rate levels are monitored to minimise borrowing costs over the medium to longer term and to maintain stability. The differential between debt costs and investment earnings continues to be acute, resulting in the use of internal resources in lieu of borrowing often being the most cost effective means of financing capital expenditure. An additional strand of the strategy is to actively monitor opportunities arising for debt rescheduling in order to deliver savings in interest costs but with minimal risk, and to balance the ratio of fixed rate to variable rate debt within the portfolio.

In order to service the Council's day to day cash needs, the Council maintains a portfolio of short term investments. The Council's investment priorities are: the security of invested capital, the liquidity of invested capital, and the optimum yield that is commensurate with security and liquidity, in that order. The report details the Council's investment strategy, explains the institutions (counterparties) with whom the Council is permitted to invest, the limits related to the size of individual investments and the overall holding with institutions.

As a result of continued pressure and uncertainty within the financial markets, the security of any investment is the key consideration in decision making and a cautious approach will always be adopted. Whilst this report identifies all permitted options in investment decision making, tighter controls govern daily activity limiting the number of counterparties with whom investments will be placed and the value of the total holding with any single institution. Regular monitoring of all institutions on the counterparty list is part of daily treasury management. Although not relevant in the present climate, in any period of significant stress in the markets, the default position will be to invest with the government's Debt Management Office (DMO).

The impact of interest rates is crucial to all treasury management activity and forecasts of interest rate movements are taken into account in developing treasury management strategy. Consequently, this strategy is kept under review and, taking market information into account, will be realigned, if required, in line with evolving market conditions and expectations for future interest rates.

RECOMMENDATIONS:

GOVERNANCE COMMITTEE

i) to endorse the Treasury Management (TM) Strategy for 2015/16 as outlined in the report;

ii) to note that the indicators as reported have been set on the assumption that the recommendations in the Capital Update report will be approved by Council on 11 February 2015. Should the recommendations change, the Prudential Indicators may have to be recalculated; and

iii) to note that due to the early timing of this report, changes may still be required following the finalisation of capital and revenue budgets and therefore any significant changes to this report will be highlighted in the final version that is presented to Full Council.

COUNCIL

i) to approve the Council's Treasury Management (TM) Strategy and Prudential Indicators for 2015/16, 2016/17 and 2017/18, as detailed within the report;

ii) to approve the 2015 Minimum Revenue Provision (MRP) Statement as detailed in paragraphs 68 to 77;

iii) to approve the Annual Investment Strategy as detailed in paragraphs 37 to 48;

iv) to note that at the time of writing this report the recommendations in the Capital Programme Update report, submitted to Council on the 11 February 2015, have not yet been approved. The indicators in the report are based on the assumption that they will be approved, but should the recommendations change, the Prudential Indicators may have to be recalculated; and

v) to continue to delegate authority to the Chief Financial Officer (CFO), following consultation with the Cabinet Member for Resources to approve any changes to the Prudential Indicators or borrowing limits that will aid good treasury management. For example, agreeing an increase in the percentage for variable rate borrowing to take advantage of the depressed market for short term rates. Any amendments will be reported as part of quarterly financial and performance monitoring and in revisions to the TM Strategy.

REASONS FOR REPORT RECOMMENDATIONS

In order to comply with Part 1 of the Local Government Act 2003, and the established TM procedures that have been adopted by the Authority, each year the Council must set certain borrowing limits and approve TM Strategy which includes:

- Treasury Management Strategy for 2015/16:
  - Borrowing – Paragraphs 22 to 34,
  - Debt Rescheduling – Paragraphs 35 to 36
  - Investments – Paragraphs 37 to 48
- Treasury Management Indicators – Paragraphs 49-66
- MRP Statement – Paragraphs 68 to 77
- Other Prudential Indicators – Paragraphs 80 to 94

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

1. Alternative options for borrowing would depend on decisions taken on the review of the capital programme, which are being taken at Full Council on 11 February 2015.

DETAIL (Including consultation carried out)

CONSULTATION

2. The proposed Capital Programme Update report on which this report is based has been subject to separate consultation processes.

BACKGROUND

3. The Local Government Act 2003 introduced a system for borrowing based largely on self-regulation by local authorities themselves. The basic principle of the new system is that local authorities will be free to borrow as long as their capital spending plans are affordable, prudent and sustainable.

4. The Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services, (the "CIPFA TM Code"), and the Prudential Code require local authorities to determine a Treasury Management Strategy Statement (TMSS) and Prudential Indicators (PIs) on an annual basis. The TMSS also incorporates the Annual Investment Strategy (AIS), which is a requirement of the Department for Communities and Local Government's (CLG) Investment Guidance.

5. As per the requirements of the Prudential code, the Authority has adopted the CIPFA Treasury Management Code at its Council meeting on 19 February 2003 and all subsequent updates.

6. The Authority has borrowed and invested substantial sums of money and therefore has potential large exposures to financial risks including the loss of invested funds and the effect of changing interest rates. The successful identification, monitoring and control of risk is the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Council. The main risks to the Council's treasury activities are:

   - Liquidity Risk (Inadequate cash resources)
   - Market or Interest Rate Risk (Fluctuations in interest rate levels and thereby in the value of investments).
   - Inflation Risks (Exposure to inflation)
   - Credit and Counterparty Risk (Security of Investments)
   - Refinancing Risks (Impact of debt maturing in future years)
   - Legal & Regulatory Risk (i.e. non-compliance with statutory and regulatory requirements, risk of fraud)

7. The purpose of this TMSS is to allow Council to approve:

   - Treasury Management Strategy for 2015/16
   - Annual Investment Strategy 2015/16
   - Prudential Indicators for 2015/16, 2016/17 and 2016/17

- 2015 MRP Statement

8. The strategy takes into account the impact of the Council's Revenue Budget and Capital Programme on the Balance Sheet position, the Prudential Indicators and the current and projected Treasury position (Appendix 1). The outlook for interest rates (Appendix 2) has also been taken into account in developing this strategy

9. The Council acknowledges that effective TM will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in TM, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management. To aid the Council in carrying out its TM function, it has appointed TM Advisors (Arlingclose), who advise the Council on strategy and provide market information to aid decision making. However it should be noted that the decisions are taken independently by the CFO taking into account this advice and other internal and external factors.

10. Some alternative strategies, with their financial and risk management implications, are listed below.

Options	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses will be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs will be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long term costs will be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs will be less certain

11. All treasury activity will comply with relevant statue, guidance and accounting standards.

Economic Background

12. There is momentum in the UK economy, with a continued period of growth through domestically-driven activity and strong household consumption. There are signs that growth is becoming more balanced. The greater contribution from business investment should support continued, albeit slower, expansion of GDP. However, inflationary pressure is currently extremely benign and is likely to remain low in the short-term. There have been large falls in unemployment but levels of part-time working, self-employment and underemployment are

significant and nominal earnings growth remains weak and below inflation.

13. The Monetary Policy Committee's (MPC) focus is on both the degree of spare capacity in the economy and the rate at which this will be used up, factors prompting some debate on the Committee. Despite two MPC members having voted for an 0.25% increase in rates at each of the meetings August 2014 the minutes of the January 2015 meeting showed unanimity in maintaining the Bank Rate at 0.5% as there was sufficient risk that low inflation could become entrenched and the MPC became more concerned about the economic outlook.

Credit outlook

14. The transposition of two European Union directives into UK legislation in the coming months will place the burden of rescuing failing EU banks disproportionately onto unsecured local authority investors. The *Bank Recovery and Resolution Directive* promotes the interests of individual and small businesses covered by the Financial Services Compensation Scheme and similar European schemes, while the recast *Deposit Guarantee Schemes Directive* includes large companies into these schemes. The combined effect of these two changes is to leave public authorities and financial organisations (including pension funds) as the only senior creditors likely to incur losses in a failing bank after July 2015.

15. The continued global economic recovery has led to a general improvement in credit conditions since last year. This is evidenced by a fall in the credit default swap spreads of banks and companies around the world. However, due to the above legislative changes, the credit risk associated with making unsecured bank deposits will increase relative to the risk of other investment options available to the Authority.

Outlook for Interest Rates

16. The Authority's treasury management advisor Arlingclose forecasts the first rise in official interest rates in August 2015 and a gradual pace of increases thereafter, with the average for 2015/16 being around 0.75%, they also believe the normalised level of the Bank Rate post-crisis to range between 2.5% and 3.5%. The risk to the upside (i.e. interest rates being higher) is weighted more towards the end of the forecast horizon. On the downside, Eurozone weakness and the threat of deflation have increased the risks to the durability of UK growth. If the negative indicators from the Eurozone become more entrenched, the Bank of England will likely defer rate rises to later in the year. Our Advisors projects gilt yields on an upward path in the medium term, taking the forecast average 10 year PWLB loan rate for 2015/16 to 2.7%. A more detailed economic and interest rate forecast provided by the Authority's treasury management advisor is attached at Appendix 2.

Balance Sheet and Treasury Position

17. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR). The CFR, together with balances and useable reserves, are the core drivers of TM Activity.

18. As at the 31 December 2014 the Authority had £334M of debt (£256M borrowing plus £78M other long term liabilities) and £76M investments which is set out in further detail in Appendix 1.

19. The Authority is able to borrow funds in excess of the current level of its CFR up to the projected level in 2017/18. The Authority is likely to only borrow in

advance of need if it felt the benefits of borrowing at interest rates now compared to where they are expected to be in the future, outweighs the current cost and risks associated with investing the proceeds until the borrowing was actually required.

20. The forecast movement in the CFR in coming years is one of the Prudential Indicators (PIs). The movement in actual external debt and usable reserves combine to identify the Authority's borrowing requirement and potential investment strategy in the current and future years is shown below.

	31/03/2014 Actual £M	31/03/2015 Approved £M	31/03/2015 Estimate £M	31/03/2016 Estimate £M	31/03/2017 Estimate £M	31/03/2018 Estimate £M
General Fund CFR	266	261	266	258	246	237
Housing CFR	159	185	157	187	196	193
Total CFR	**425**	**446**	**423**	**445**	**442**	**430**
Less Other Long Term Liabilities	(78)	(78)	(83)	(80)	(76)	(74)
Borrowing CFR	**347**	**368**	**340**	**365**	**366**	**356**
Less External borrowing	(274)	(283)	(253)	(241)	(230)	(218)
Internal (over) borrowing	**73**	**85**	**88**	**124**	**136**	**138**
Less Usable Reserves and Net Creditors	(136)	(66)	(92)	(71)	(68)	(57)
Net Borrowing Requirement / (internal Borrowing Capacity)	**(63)**	**19**	**(4)**	**53**	**68**	**81**

21. In order to demonstrate the Authority's need to borrow the table above reflects the increased capital borrowing and projected CFR as a result of the proposed capital programme and forecast fall in balances, but only shows loans to which the Authority is already committed, it excludes optional refinancing as a result of loans maturing or new capital borrowing .

BORROWING STRATEGY

22. The Authority currently holds £256M of loans, a decrease of £18M on the previous year (£274M), as part of its strategy for funding previous years' capital programmes. The balance sheet forecast identifies a need to borrow and the Authority expects to borrow up to £4M in 2014/15 and up to £77M between 2015/16 and 2017/18 to fund the capital programme (£54M) and to cover the expected fall in balances and cash flow requirements. The Authority may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing (see paragraph 90).

23. The Authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required. The flexibility to renegotiate loans should the Authority's long-term plans change is a secondary objective.

24. Given the significant cuts to public expenditure and in particular to local government funding, the Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

25. By doing so, the Authority is able to reduce net borrowing costs (despite reducing investment income) and reduce overall treasury risk. Whilst such a strategy is most likely to be beneficial over the next 2-3 years as official interest rates remain low, it is unlikely to be sustained in the medium-term. The benefits of internal borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise. Our Advisors will assist the Authority with this 'cost of carry' and breakeven analysis. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in 2015/16 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

26. In addition, the Authority may borrow short-term loans (normally for up to one month) to cover unexpected cash flow shortages.

27. The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board (PWLB) and its successor body (see below)
- Local authorities
- Any institution approved for investments
- Any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds (except Hampshire County Council)
- Capital markets bond investors (stock issues, commercial paper and bills)
- Local Capital Finance Company and other special purpose companies created to enable joint local authority bond issues (see paragraph 30 below for further details).

28. In addition , capital financing may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- Operating and finance leases
- Hire purchase
- Private Finance Initiative
- Sale and leaseback

29. The Authority has previously raised the majority of its long-term borrowing from the PWLB, but it continues to investigate other sources of finance, such as local authority loans and bank loans, that may be available at more favourable rates. The Department of Communities & Local Government (CLG) has recently announced HM Treasury (HMT) are taking the necessary legislative steps to abolish the PWLB in the coming months. Whilst this announcement sounds dramatic both the CLG and HMT have stressed that this development is purely being taken to address the governance of the PWLB. The CLG have stated that it will have no impact on existing loans held by local authorities or the government's policy on local authority borrowing.

30. **LGA Bond Agency:** A Local Capital Finance Company (LCFC) was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for three reasons: borrowing authorities may be required to provide bond investors with a joint and several guarantee over the very small risk that other local authority borrowers default on their loans; there

will be a lead time of several months between committing to borrow and knowing the interest rate payable; and up to 5% of the loan proceeds will be withheld from the Authority and used to bolster the Agency's capital strength instead. The Authority is considering investing up to £0.02M in the LCFC to enable us to borrow from the Agency, subject to approval of a recommendation within the Council Tax and Budget Setting report.

31. The HRA has a material borrowing need in the short term whilst the General Fund has an estimated £35M reserves in the medium term which are invested. An alternative is to use some of the General Fund investment monies to act as lender to the HRA for some of their borrowing needs. Whilst it is not intended at this time to utilise this facility in 2015/16, it does remain a viable option .Further work with Arlingclose is being undertaken to determine the most appropriate mechanism for achieving this, in the event that this is progressed.

32. The Authority has £9M exposure to LOBO loans all of which can be "called" within 2015/16. A LOBO is called when the Lender exercises their right to amend the interest rate on the loan at which point the Borrower can accept the revised terms or reject them and repay the loan. Although unlikely in the low interest rate environment LOBO loans present a potential refinancing risk to the Authority since the decision to call a LOBO is entirely at the lender's discretion. Any LOBOs called will be discussed with the treasury advisers prior to acceptance of any revised terms. The default position will be the repayment of the LOBO without penalty i.e. the revised terms will not be accepted.

33. Included within the PWLB portfolio is £35M of variable rate Loans, which are currently averaging 0.69% and are helping to keep the overall cost of borrowing down. Whilst in current climate of low interest rates this remains a sound strategy, these loans leave the authority exposed to the risk of short-term interest rate rises and are therefore subject to the limit on the net exposure to variable interest rates in the treasury management indicators (paragraph 52), the Council review these regularly and if appropriate will switch into fixed rate loans.

34. In order to mitigate these risks further, the Council approved the creation of an Interest Equalisation Reserve in 2009 to help manage volatility in the future and ensure that there was minimal impact on annual budget decisions or council tax in any single year. At that point a major debt restructuring exercise had taken place in order to take advantage of market conditions and produce net revenue savings. As reported in the 2013/14 outturn report in preparation of the banking regulation reform, this reserve was renamed 'Treasury Risk Reserve' to recognise the wider risk. The level of this reserve was reviewed as part of the budget setting process and it is recommended that £925,000 is released for general purposes.

DEBT RESCHEDULING

35. The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Some bank lenders may also be prepared to negotiate premature redemption terms. The Authority may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall saving or reduction in risk.

36. Borrowing and rescheduling activity will be reported to the Governance Committee in the Annual Treasury Management Report and the mid-year update. Regular treasury management reports will also be presented as part

of quarterly monitoring to Cabinet.

INVESTMENT POLICY AND STRATEGY

37. The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's investment balance has ranged between £66M and £125M, and are expected to be maintained between £70M and £100M in the forthcoming year, which is lower than previous years due to falling balances. The Council's current level of investments is presented at Appendix 1.

38. Both the CIPFA Code and the CLG Guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk receiving unsuitably low investment income.

39. Given the increasing risk and continued low returns from short-term unsecured bank investments, the Authority aims to further diversify into more secure and/or higher yielding asset classes during 2015/16. This is especially the case for the estimated £35M that is available for longer-term investment. The majority of the Authorities surplus cash is currently invested in short-term unsecured bank deposits, and money market funds. This diversification will therefore represent a substantial change in strategy over the coming year.

40. The Authority may invest its surplus funds with any of the following counterparty types, subject to the cash limits (per counterparty) and time limits detailed in Appendix 3.

Credit Rating: Investment decisions are made by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used.

Banks Unsecured: Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. Unsecured investment with banks rated BBB or BBB- are restricted to overnight deposits at the Authority's current account bank

Banks Secured: Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the highest of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

Government: Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

Corporates: Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made as part of a diversified pool in order to spread the risk widely.

Registered Providers: Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing, formerly known as Housing Associations. These bodies are tightly regulated by the Homes and Communities Agency and, as providers of public services, they retain a high likelihood of receiving government support if needed.

Pooled Funds: Shares in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Money Market Funds that offer same-day liquidity and aim for a constant net asset value will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

41. The Chief Financial Officer (CFO), under delegated powers, will undertake the most appropriate form of investments in keeping with the investment objectives, income and risk management requirements and Prudential Indicators. Decisions taken on the core investment portfolio will be reported quarterly to Cabinet.

42. Any institution will be suspended or removed should any of the factors identified in paragraph 43 below give rise to concern. Specifically credit ratings are monitored by the Authority on a daily basis. Arlingclose advises the Authority on ratings changes and appropriate action to be taken.

Risk Assessment and Credit Ratings

43. The Authority uses long-term credit ratings from the three main rating agencies Fitch Ratings, Moody's Investors Service and Standard & Poor's Financial Services to assess the risk of investment default. The lowest available counterparty credit rating will be used to determine credit quality, unless an investment-specific rating is available. Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a rating is on review for possible downgrade (also known as “rating watch negative” or “credit watch negative”) so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Other Information on the Security of Investments

44. The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

45. When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority’s cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office for example, or invested in government treasury bills for example or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

Specified Investments

46. The CLG Guidance defines specified investments as those:

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
  - the UK Government,
  - a UK local authority, parish council or community council, or
  - a body or investment scheme of “high credit quality”.

The Authority defines “high credit quality” organisations as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds “high credit quality” is defined as those having a credit rating of A- or higher.

Non-Specified Investments

47. Any investment not meeting the definition of a specified investment is classed as non-specified. The Authority does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition on high credit quality. Limits on non-specified investments are shown in table below.

	Cash Limit
Total long-term investments	£35M
Total investments without credit ratings or rated below A-	£10M
Total investments in foreign countries rated below AA+	£5M
Total non-specified investments	**£50M**

48. **Investment Limits:** The Authority's revenue reserves available to cover investment losses (excluding Schools, capital and HRA) are forecast to be £40M on 31st March 2015. In order that there is no immediate pressure on available reserves in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £10M. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below:

	Cash limit or %
Any single organisation, except the UK Central Government	£10M each
UK Central Government	unlimited
Any group of organisations under the same ownership	£10M per group
Any group of pooled funds under the same management	£10M per manager
Negotiable instruments held in a broker's nominee account	£50M per broker
Foreign countries	£10M per country
Registered Providers	£5M in total
Loans to unrated corporates	£0.5M in total
Money Market Funds	£10M per fund and no more than 50% of investments in total

TREASURY MANAGEMENT INDICATORS

49. The Authority measures and manages its exposure to treasury management risks using the following indicators.

Adoption of the CIPFA Treasury Management Code

50. The Authority adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* in February 2012.

Liquidity Management

51. The Authority undertakes high level cash flow forecasting to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Authority's medium term financial plan and cash flow forecast.

Upper Limits for Fixed and Variable Interest Rate Exposure

52. The following Prudential Indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. The upper limit for variable rate exposure has been set to ensure that the Council is not exposed to interest rate rises, which could adversely impact on the revenue budget. The limit allows for the use of variable rate debt to offset exposure to changes in short term rates on investments.

	Existing Level 31 December 2014 %	**2014/15 Approved %**	**2015/16 Estimate %**	**2016/17 Estimate %**	**2017/18 Estimate %**
Upper Limit for Fixed Interest Rate Exposure	100	100	100	100	100
Upper Limit for Variable Interest Rate Exposure	50	50	50	50	50

53. The Council will also limit and monitor large concentrations of fixed rate debt needing to be replaced. The limits provide the necessary flexibility within which decisions will be made for drawing down new loans on a fixed or variable rate basis; the decisions will ultimately be determined by expectations of anticipated interest rate movements as set out in the Council's TM strategy.

Maturity Structure of Fixed Rate borrowing

54. This indicator is set to control the authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

	Lower Limit %	**Upper Limit %**
Under 12 Months	0	45
12 months and within 24 months	0	45
24 months and within 5 years	0	50
5 years and within 10 years	0	75
10 years and above	0	75

55. Time periods start on the first day of each financial year and the maturity date of borrowing is the earliest date on which the lender can demand repayment. As all LOBO are now in their call options they have been included as under 12 months within this indicator.

56. This table below details the level of our current fixed rate debt and shows that all debt is within existing limits.

	Lower Limit %	Upper Limit %	Actual Fixed Debt as at 31/12/2014 £M	Average Fixed Rate as at 31/12/2014 %	% of Fixed Rate as at 31/12/2014	Compliance with set Limits?
Under 12 months	0	45	9.4	2.44	4	Yes
12 months and within 24 months	0	45	0.0	0.00	0	Yes
24 months and within 5 years	0	50	0.0	0.00	0	Yes
5 years and within 10 years	0	75	72.5	3.23	33	Yes
10 years and within 15 years	0	75	0.0	0.00	0	Yes
15 years and within 20 years	0	75	0.0	0.00	0	Yes
20 years and within 25 years	0	75	10.0	4.68	5	Yes
25 years and within 30 years	0	75	5.0	4.60	2	Yes
30 years and within 35 years	0	75	0.0	0.00	0	Yes
35 years and within 40 years	0	75	42.0	3.99	19	Yes
40 years and within 45 years	0	75	50.6	3.62	23	Yes
45 years and within 50 years	0	75	31.2	3.56	14	Yes
50 years and above	0	100	0.0	0.00	0	Yes
			220.7	**3.43**	**100**	

Principal sums invested for periods longer than 364 days

57. The purpose of this limit is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum invested to final maturities beyond the period end will be:

	2014/15 Approved £M	2014/15 Revised £M	2015/16 Limit £M	2016/17 Limit £M	2017/18 Limit £M
Upper Limit for total principal sums invested over 364 days	30	35	35	35	35

OTHER ITEMS

58. There are a number of additional items that the Authority is obliged by CIPFA or CLG to include in its Treasury Management Strategy.

Policy on Use of Financial Derivates

59. Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

60. The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to.

Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

61. Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

Housing Revenue Account Self-Financing

62. On 1st April 2012, the Authority notionally split each of its existing long-term loans into General Fund and HRA pools. In the future, new long-term loans borrowed will be assigned in their entirety to one pool or the other. Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) will be charged/ credited to the respective revenue account.

63. Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance. This balance will be measured and interest transferred between the General Fund and HRA at an agreed rate. Housing Legislation does not allow impairment losses to be charged to the HRA and consequently any credit related losses on the authority's investments will be borne by the General Fund alone. It is therefore appropriate that the General Fund is compensated for bearing this risk, and all interest transferred to the HRA should be adjusted downwards. The rate will be based on investments with the Debt Management Office. The rate of return on comparable investments with the government is lower and often referred to as the risk-free rate.

Training

64. CIPFA's Code of Practice requires the CFO to ensure that all Members tasked with TM responsibilities, including scrutiny of the TM function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities. Member training was undertaken on the 20 January 2015.

The Council adopts a continuous performance and development programme to ensure staff are regularly appraised and any training needs addressed. Relevant staff also attend regular training sessions, seminars and workshops which ensure their knowledge is up to date. Details of training received are maintained as part of the performance and development process.

Treasury Management Advisors

65. The CLG's Guidance on local government investments recommend that the Investment Strategy should state:

Whether and, if so, how the Authority uses external contractors offering information, advice or assistance relating to investment and

How the quality of any such service is controlled.

The Council has a contract in place with Arlingclose to provide a treasury advisory service and receives the following services:

- Credit advice
- Investment advice
- Technical advice
- Economic & interest rate forecasts
- Workshops and training events
- HRA support
- Ad hoc advice

The Authority maintains the quality of the service with its advisors by holding quarterly meetings and tendering periodically. It should also be noted that decisions are taken independently by the CFO taking into account this advice and other internal and external factors.

Investment of Money Borrowed in Advance of Need

66. The Authority may, from time to time, borrow in advance of need, where this is expected to provide the best long term value for money. Since amounts borrowed will be invested until spent, the Authority is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Authority's overall management of its treasury risks.

The total amount borrowed will not exceed the authorised borrowing limit for the period. The maximum period between borrowing and expenditure is expected to be two years, although the Authority is not required to link particular loans with particular items of expenditure.

BALANCED BUDGET REQUIREMENT

67. The Council complies with the provisions of S32 of the Local Government Finance Act 1992 to set a balanced budget.

2015/16 MINIMUM REVENUE PROVISION (MRP) STATEMENT

68. Where the Authority finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Authority to have regard to the Department for Communities and Local Government's Guidance on Minimum Revenue Provision (the CLG Guidance) most recently issued in 2012.

69. The broad aim of the CLG Guidance is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

70. The CLG Guidance requires the Authority to approve an Annual MRP Statement each year, and recommends a number of options for calculating a prudent amount of MRP.

71. The four MRP options available are:

- Option 1: Regulatory Method
- Option 2: CFR Method
- Option 3: Asset Life Method
- Option 4: Depreciation Method

NB *This does not preclude other prudent methods to provide for the repayment of debt principal.*

<u>MRP in 2015/16</u>: Option 1 and 2 will be used for the majority of General Fund historic debt particularly that deemed to be supported through the Revenue Support Grant. For major projects where capital expenditure is funded from prudential borrowing Option 3 will be used to provide MRP over the life of the asset to which the borrowing was applied.

72. Following the HRA self-financing settlement, HRA debt increased from £100M to £174M with a borrowing cap of £200M. There is no requirement for the HRA to make debt repayments but it has opted to make voluntary repayments relating to debt inherited at the split and provision has been made within its business plan to show that it can pay down the remaining debt over the life of the 30 year business plan.

73. MRP in respect of leases and Private Finance Initiative schemes brought on Balance Sheet under the International Financial Reporting Standards (IFRS) based Accounting Code of Practice will match the annual principal repayment for the associated deferred liability.

74. Guidance relating to the regulatory method (option 1), which is used to calculate borrowing prior to the prudential regime, allows for debt transferred from Hampshire County Council (HCC) when we became a Unitary Authority in 1997 to be excluded from the MRP calculation as we are already repaying the principal element to HCC.

75. If it is ever proposed to vary the terms of the original MRP Statement during the year, a revised statement should be put forward for approval by the Authority at that time.

76. Capital expenditure incurred during 2015/16 and funded from borrowing will not be subject to a MRP charge until 2016/17.

77. Based on the Authority's estimate of its Capital Financing Requirement on 31st March 2015, the budget for MRP has been set as follows:

	31/03/2015 Estimated CFR £M	2015/16 Estimate MRP £M
Capital expenditure before 01.04.2008	95.6	2.95
Unsupported capital expenditure after 31.03.2008	87.8	3.36
Finance leases and Private Finance Initiative	66.8	2.05
Transferred debt	15.6	0.63
Total General Fund	**265.8**	**8.99**
Assets in the Housing Revenue Account	104.9	Nil
HRA subsidy reform payment	52.6	4.9
Total Housing Revenue Account	**157.5**	**4.9**
Total	**423.3**	**13.89**

MONITORING AND REPORTING ON THE ANNUAL TREASURY OUTTURN AND OTHER PRUDENTIAL INDICATORS

78. The Chief Financial Officer will report to the Governance Committee on TM activity / performance as follows:

(a) A mid-year review against the strategy approved for the year.

(b) An outturn report on its treasury activity, no later than 30 September after the financial year end.

79. In addition, a quarterly update will be presented to Cabinet as part of Quarterly Revenue Financial Monitoring.

PRUDENTIAL INDICATORS

Background

80. The Local Government Act 2003 requires the Authority to have regard to the Chartered Institute of Public Finance and Accountancy's Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Authority has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

Gross Debt and the Capital Financing Requirement

81. This is a key indicator of prudence. In order to ensure that over the medium term debt will only be for a capital purpose, the local authority should ensure that debt does not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This view takes into account current commitments, existing plans and the proposals in the

approved budget.

82. There is a significant difference between the gross external borrowing requirement and the net external borrowing requirement represented by the Council's level of balances, reserves, provisions and working capital. The Council's current strategy is only to borrow to the level of its net borrowing requirement. The reasons for this are to reduce credit risk, take pressure off the Council's lending list and also to avoid the cost of carry existing in the current interest rate environment:

	31/03/2015 Revised £M	31/03/2016 Estimate £M	31/03/2017 Estimate £M	31/03/2018 Estimate £M
Borrowing	183.4	178.0	169.3	162.9
Finance leases and Private Finance Initiative	66.8	64.8	62.3	60.4
Transferred debt	15.6	15.0	14.4	13.8
Total General Fund Debt	**265.8**	**257.8**	**246.0**	**237.1**
HRA	157.5	186.8	195.8	193.1
Total	**423.3**	**444.6**	**441.8**	**430.2**

Estimates of Capital Expenditure

83. The Authority's planned capital expenditure and financing is summarised below, further detail is provided in the General Fund and HRA Capital programme report submitted elsewhere on the agenda.

Capital Expenditure and Financing	2014/15 Estimate £000	2014/15 Revised £000	2015/16 Estimate £000	2016/17 Estimate £000	2017/18 Estimate £000
General Fund	56,141	48,967	46,781	5,551	533
HRA	53,399	34,929	65,546	46,641	42,030
Total Expenditure	**109,540**	**83,896**	**112,327**	**52,192**	**42,563**
Capital receipts	12,277	11,774	14,042	6,152	3,183
Government Grants	33,388	32,269	28,024	4,288	0
Contributions	13,574	4,227	4,043	245	1,375
Major Repairs Allowance	17,931	17,939	18,970	19,364	19,721
Revenue	12,339	12,284	12,029	10,858	16,134
Total Financing	**89,509**	**78,493**	**77,108**	**40,907**	**40,413**
Temporary Financing	(3,400)	0	(1,000)	(2,650)	0
Unsupported borrowing	23,431	5,403	36,219	13,935	2,150
Total Funding	**20,031**	**5,403**	**35,219**	**11,285**	**2,150**
Total Financing & Funding	**109,540**	**83,896**	**112,327**	**52,192**	**42,563**

Ratio of Financing Costs to Net Revenue Stream

84. This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet borrowing costs. The ratio is based on costs net of investment income. The upper limit for this ratio is currently set at 10% and will remain so for the General Fund to allow for known borrowing decision in the next two years and to allow for additional borrowing affecting major schemes. The table below shows the likely position based on the proposed

capital programme.

85. This indicator is not so relevant for the HRA, especially since the introduction of self-financing, as financing costs have been built into their 30 year business plan, including the voluntary payment of MRP. No problem is seen with the affordability but if problems were to arise then the HRA would have the option not to make principle repayments in the early years.

Ratio of Financing Costs to Net Revenue Stream	2013/14 Actual %	2014/15 Approved %	2014/15 Forecast %	2015/16 Forecast %	2016/17 Forecast %	2017/18 Forecast %
General Fund	6.95%	6.96%	5.83%	6.83%	7.57%	8.40%
HRA	16.24%	16.33%	14.87%	14.93%	15.55%	15.33%
Total	10.28%	10.39%	9.20%	10.17%	11.27%	11.62%

86. Please note that the incremental increase in this ratio for the General Fund is more to do with the reduced revenue stream which has reduced from £193.3M in 2013/14 to £145.9M in 2017/18 rather than an increased in debt charges.

Incremental Impact of Capital Investment Decisions

87. This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax and Housing Rent levels. The incremental impact is calculated by comparing the total revenue budget requirement (i.e. Interest and MRP) of the current approved capital programme with an equivalent calculation arising from the proposed programme. The incremental impact of capital investments decisions are estimated to be:

Incremental Impact of Capital Investment Decisions	2014/15 Approved £	2015/16 Estimate £	2016/17 Estimate £	2017/18 Estimate £
Increase / (Decrease) per average number of equivilent band D properties for Council Tax purposes	(1.27)	5.36	(0.59)	(2.82)
Increase in Average Weekly Housing	27.81	57.92	127.58	35.01

88. It should be noted that these indicators are for illustrative purposes only and show the amount per equivalent band D properties that this change would equate to. The decision to restrict the capital programme and to use capital receipts to repay temporary financing results in an incremental decrease in the band D Council Tax.

89. As per the General Fund these indicators are illustrative as HRA rent levels are currently set under the Government's rent restructuring formula, which is independent of the level of capital investment and borrowing. The calculation of the indicator ignores this factor.

Authorised Limit and Operational Boundary for External Debt

90. The Council has an integrated treasury management strategy and manages its treasury position in accordance with its approved strategy and practice. Overall borrowing will therefore arise as a consequence of all the financial transactions of the Council and not just those arising from capital spending reflected in the CFR.

91. The ***Authorised Limit*** sets the maximum level of external borrowing on a gross basis (i.e. excluding investments) for the Council. It is measured on a daily basis against all external borrowing items on the Balance Sheet (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities). This Prudential Indicator separately identifies borrowing from other long term liabilities such as finance leases. It is consistent with the Council's existing commitments, its proposals for capital expenditure and financing and its approved treasury management policy statement and practices.

The Authorised Limit has been set on the estimate of the most likely, prudent but not worst case scenario with sufficient headroom over and above this to allow for unusual cash movements, for example a complete debt restructure which requires monies to be borrowed in advance of repayment of existing debt. The Authorised Limit is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit).

Authorised Limit for External Debt	Existing Level 31 December 2014 £M	2014/15 Approved £M	2014/15 Estimate £M	2015/16 Estimate £M	2016/17 Estimate £M	2017/18 Estimate £M
Borrowing	256	674	622	640	678	749
Other Long-term Liabilities	78	86	82	87	84	81
Total	**334**	**760**	**704**	**727**	**762**	**830**

92. The ***Operational Boundary*** is linked directly to the Council's estimates of the CFR and estimates of other day to day cash flow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent but not worst case scenario but without the additional headroom included within the Authorised Limit

Operational Boundary for External Debt	Existing Level 31 December 2014 £M	2014/15 Approved £M	2014/15 Estimate £M	2015/16 Estimate £M	2016/17 Estimate £M	2017/18 Estimate £M
Borrowing	256	672	441	466	476	548
Other Long-term Liabilities	78	78	82	87	84	81
Total	**334**	**750**	**523**	**553**	**560**	**629**

93. The CFO has delegated authority, within the above limits for any individual year, to effect movement between the separately agreed limits for borrowing and other long term liabilities. Decisions will be based on the outcome of financial option appraisals and best value considerations. Council will be notified of any use of this delegated authority.

<u>HRA Limit on Indebtedness</u>

94. Local authorities are required to report the level of the HRA CFR compared to the level of debt which is imposed (or subsequently amended) by the DCLG at the time of implementation of self – financing. The HRA is still within the HRA Debt Cap set CLG totalling £199.6M.

HRA Summary of Borrowing	2014/15 Approved £M	2014/15 Estimate £M	2015/16 Estimate £M	2016/17 Estimate £M	2017/18 Estimate £M
Brought Forward	167.1	158.6	157.5	186.8	195.8
Maturing Debt	(5.1)	(5.1)	(5.1)	(5.1)	(5.1)
New borrowing	23.1	4.0	34.4	14.1	2.4
Carried forward	**185.1**	**157.5**	**186.8**	**195.8**	**193.1**

RESOURCE IMPLICATIONS

<u>Capital</u>

95. The Capital implications are considered as part of the General Fund Capital Programme report and HRA Capital Programme report elsewhere on the Council agenda.

<u>Revenue</u>

96. The General Fund budget for investment income in 2015/16 is £0.61M, based on committed deals to date plus investments on cash at an average balance of £25M and an average interest rate of 0.4%. The budget for debt interest paid in 2015/16 is £11M based on an average debt portfolio of £299.4M at an average interest rate of 3.37%. If actual levels of investments and borrowing and / or actual interest rates differ from those forecast, performance against budget will be correspondingly different

97. The CLG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Chief Financial Officer, having consulted the Cabinet Member for Resources, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness, the Revenue implications of which have been considered as part of the General Fund Revenue Budget report and HRA Revenue Budget report elsewhere on the Council agenda.

<u>Property/Other</u>

98. None

LEGAL IMPLICATIONS

<u>Statutory power to undertake proposals in the report</u>:

99. Local Authority borrowing is regulated by Part 1, of the Local Government Act 2003, which introduced the new Prudential Capital Finance System. From 1 April 2004, investments are dealt with, not in secondary legislation, but through guidance. Similarly, there is guidance on prudent investment practice, issued by the Secretary of State under Section 15(1)(a) of the 2003 Act. A local authority has the power to invest for "any purpose relevant to its functions under any enactment or for the purposes of the prudent management of its financial affairs". The reference to the "prudent management of its financial affairs" is included to cover investments, which are not directly linked to identifiable statutory functions but are simply made in the course of treasury management. This also allows the temporary investment of funds borrowed for the purpose of expenditure in the reasonably near future; however, the speculative procedure of borrowing purely in order to invest and make a return remains unlawful.

<u>Other Legal Implications</u>:

100. None

POLICY FRAMEWORK IMPLICATIONS

101. This report has been prepared in accordance with CIPFA's Code of Practice on TM.

KEY DECISION? Yes/No

WARDS/COMMUNITIES AFFECTED:	N/A

SUPPORTING DOCUMENTATION

Appendices

1.	Existing Investment & Debt Portfolio Position and Projections
2.	Economic and Interest Outlook
3.	Counterparty Cash and Time Limits
4.	Treasury Management Policy Statement
5.	Glossary of Treasury Terms

Documents In Members' Rooms

1.	None

Equality Impact Assessment

Do the implications/subject of the report require an Equality Impact Assessment (EIA) to be carried out.	No

Other Background Documents

Equality Impact Assessment and Other Background documents available for inspection at:

Title of Background Paper(s)	Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)

1.	TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL LIMITS 2014/15 to 2016/17 – Council 12 February 2014 http://www.southampton.gov.uk/modernGov/ieListDocuments.aspx?CId=122&MId=2469&Ver=4