DECISION-MAKER:		GOVERNANCE COMMITTEE COUNCIL		
SUBJECT:		PRUDENTIAL LIMITS AND TREASURY MANAGEMENT STRATEGY 2016/17 TO 2018/19		
DATE OF DECISION:		8 FEBRUARY 2016 10 FEBRUARY 2016		
REPORT OF:		CHIEF FINANCIAL OFFICER		
CONTACT DETAILS				
AUTHOR:	**Name:**	**Mel Creighton**	**Tel:**	**023 80 4897**
	E-mail:	**mel.creighton@southampton.gov.uk**		
Director	**Name:**	**Andrew Lowe**	**Tel:**	**023 80 2049**
	E-mail:	**andrew.lowe@southampton.gov.uk**		
STATEMENT OF CONFIDENTIALITY				
NOT APPLICABLE				

BRIEF SUMMARY

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.

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 2016/17 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 into 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.

• To approve the 2016 Minimum Revenue Provision (MRP) Statement		
RECOMMENDATIONS:		
GOVERNANCE COMMITTEE **It is recommended that Governance Committee:**		
	(i)	Endorse the Treasury Management (TM) Strategy for 2016/17 as outlined in the report;
	(ii)	Endorse the 2016 Minimum Revenue Provision (MRP) Statement as detailed in paragraphs 77 to 835;
	(iii)	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 10 February 2016. Should the recommendations change, the Prudential Indicators may have to be recalculated; and
	(iv)	Note that due to the 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 **It is recommended that Council:**		
	(i)	Approve the Council's Treasury Management (TM) Strategy and Prudential Indicators for 2016/17, 2017/18 and 2018/19, as detailed within the report;
	(ii)	Approve the 2016 Minimum Revenue Provision (MRP) Statement as detailed in paragraphs 77 to 83 and to delegate authority to the Chief Financial Officer (CFO) to approve any changes necessary that aid good financial management whilst maintaining a prudent approach;
	(iii)	Approve the Annual Investment Strategy as detailed in paragraphs 38 to 57;
	(iv)	Note that at the time of writing this report the recommendations in the Capital update report, submitted to Council on the 10 February 2016, 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)	Continue to delegate authority to the Chief Financial Officer (CFO) 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		
1.	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 2016/17:
	  o Borrowing – Paragraphs 25 to 36,
	  o Debt Rescheduling – Paragraph 37
	  o Investments – Paragraphs 38 to 57
	• Treasury Management Indicators – Paragraphs 58-66
	• MRP Statement – Paragraphs 77 to 83
	Other Prudential Indicators – Paragraphs 86 to 105

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED	
2.	Alternative options for borrowing would depend on decisions taken on the review of the capital update report being taken at Full Council on 10 February 2016.
DETAIL (Including consultation carried out)	
	CONSULTATION
3.	The proposed Capital Update report on which this report is based has been subject to separate consultation processes.
	BACKGROUND
4.	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.
5.	As per the requirements of the Prudential code, the Authority adopted the CIPFA Treasury Management Code at its Council meeting on 19 February 2003 and all its subsequent updates. The latest one being *Treasury Management in the Public Services: Code of Practice 2011 Edition* in February 2012.
6.	In addition, the Department for Communities and Local Government (CLG) issued revised *Guidance on Local Authority Investments* in March 2010 that requires the Authority to approve an investment strategy before the start of each financial year.
7.	This report fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA code and the CLG guidance.
8.	Overall responsibility for treasury management remains with the Council. No TM activity is without risk; the effective identification and management of risk are integral to the Council's treasury management objectives. The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. This report covers treasury activity and the associated monitoring and control of risk.
9.	The purpose of this TMSS is to allow Council to approve: • Treasury Management Strategy for 2016/17 • Annual Investment Strategy 2016/17 • Prudential Indicators for 2016/17, 2017/18 and 2018/19 • 2016 MRP Statement

10. 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

11. 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.

12. 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

Economic Background

13. Domestic demand has grown robustly, supported by sustained real income growth and a gradual decline in private sector savings. Low oil and commodity prices were a notable feature of 2015, and contributed to annual CPI inflation falling to 0.1% in October. Wages are growing at 3% a year, and the unemployment rate has dropped to 5.4%. Mortgage approvals have risen to over 70,000 a month and annual house price growth is around 3.5%. These factors have boosted consumer confidence, helping to underpin retail spending and hence GDP growth, which was an encouraging 2.3% a year in the third quarter of 2015. Although speeches by the Bank of England's Monetary Policy Committee (MPC) members sent signals that some were willing to countenance

	higher interest rates, the MPC held policy rates at 0.5% for the 81st consecutive month at its meeting in November 2015. Quantitative easing (QE) has been maintained at £375bn since July 2012.
14.	China's growth has slowed and its economy is performing below expectations, reducing global demand for commodities and contributing to emerging market weakness. US domestic growth has accelerated but the globally sensitive sectors of the US economy have slowed. Strong US labour market data and other economic indicators however suggest recent global turbulence has not knocked the American recovery off course. The Federal Reserve did not raise policy rates at its meetings in October and November, but the statements accompanying the policy decisions point have made a rate hike in December 2015 a real possibility. In contrast, the European Central Bank finally embarked on QE in 2015 to counter the perils of deflation.
	Credit Outlook
15.	The varying fortunes of different parts of the global economy are reflected in market indicators of credit risk. UK Banks operating in the Far East and parts of mainland Europe have seen their perceived risk increase, while those with a more domestic focus continue to show improvement. The sale of most of the government's stake in Lloyds and the first sale of its shares in RBS have generally been seen as credit positive.
16.	Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the UK, USA and Germany. The rest of the European Union will follow suit in January 2016, while Australia, Canada and Switzerland are well advanced with their own plans. Meanwhile, changes to the UK Financial Services Compensation Scheme and similar European schemes in July 2015 mean that most private sector investors are now partially or fully exempt from contributing to a bail-in. The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the Authority; returns from cash deposits however remain stubbornly low.
	Interest Rate Forecast
17.	The Authority's treasury advisor Arlingclose projects the first 0.25% increase in UK Bank Rate in the third quarter of 2016, rising by 0.5% a year thereafter, finally settling between 2% and 3% in several years' time. Persistently low inflation, subdued global growth and potential concerns over the UK's position in Europe mean that the risks to this forecast are weighted towards the downside.
18.	A shallow upward path for medium term gilt yields is forecast, as continuing concerns about the Eurozone, emerging markets and other geo-political events weigh on risk appetite, while inflation expectations remain subdued. Arlingclose projects the 10 year gilt yield to rise from its current 2.0% level by around 0.3% a year. The uncertainties surrounding the timing of UK and US interest rate rises are likely to prompt short-term volatility in gilt yields.
19.	A more detailed economic and interest rate forecast provided by Arlingclose is attached at Appendix 2
20.	For the purpose of setting the budget, it has been assumed that new investments will be made at an average rate of 0.5%, and that new long-term

	loans will be borrowed at an average rate of 4%.
	BALANCE SHEET SUMMARY AND FORECAST
21.	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.
22.	At 31/12/2015 the Authority held £323M of debt (£244M borrowing plus £79M other long term liabilities) and £102M investments which is set out in further detail in Appendix 1.
23.	Forecast changes in these sums are shown in the balance sheet analysis in **Table 1** below.
24.	CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years. **Table 1** shows that the Authority expects to comply with this recommendation and shows the impact of the capital programme and maturing debt if no new borrowing is taken.

Table 1: Balance sheet Summary and Forecast

	31.3.15 Actual £M	31.3.16 Estimate £M	31.3.17 Forecast £M	31.3.18 Forecast £M	31.3.19 Forecast £M
General Fund CFR	274.1	284.1	352.1	345.4	338.3
HRA CFR	153.5	174.6	193.9	190.2	190.6
Total CFR	**427.6**	**458.7**	**546.0**	**535.6**	**528.8**
Less: Other debt liabilities *	(82.4)	(80.1)	(77.2)	(75.0)	(72.5)
Borrowing CFR	**345.2**	**378.5**	**468.8**	**460.6**	**456.3**
Less: External borrowing	(252.3)	(240.8)	(229.6)	(218.1)	(206.6)
Internal borrowing	**92.9**	**137.7**	**239.4**	**242.5**	**249.7**
Less: Usable reserves and working capital	(175.6)	(163.2)	(161.2)	(145.6)	(139.5)
(Investments) / New borrowing Requirement	**(83.1)**	**(25.7)**	**78.0**	**96.9**	**110.2**

* finance leases, PFI liabilities and transferred debt that form part of the Authority's total debt

	BORROWING STRATEGY
	Objectives
25.	The Authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs 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.
	Strategy
26.	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.
27.	Affordability and the "cost of carry" remained important influences on the Authority's borrowing strategy alongside the consideration that, for any borrowing undertaken ahead of need, the proceeds would have to be invested in the money markets at rates of interest significantly lower than the cost of borrowing. As short-term interest rates are likely to remain, at least over the forthcoming two years, lower than long-term rates, the Authority determined it was more cost effective in the short-term to use internal resources and will look to borrow short-term loans instead
28.	By doing so, the Authority is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of [internal / short-term] 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. Arlingclose 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 2016/17 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.
29.	Alternatively, the Authority may arrange forward starting loans during 2016/17, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period. In addition, the Authority may borrow short-term loans (normally for up to one month) to cover unexpected cash flow shortages.
	Sources
30.	The approved sources of long-term and short-term borrowing are: • Public Works Loan Board (PWLB) and any successor body • any institution approved for investments (see below) • any other bank or building society authorised to operate in the UK • UK public and private sector pension funds (except HCC Pension Fund) • capital market bond investors • UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues
31.	In addition, capital finance 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
32.	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, bank loans and the Municipal Bond Agency (see paragraph 33 below) which may be available at more favourable rates.
33.	UK Municipal Bonds Agency plc (MBA) 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 two 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; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. The arrangements are set out in a framework agreement which SCC can access by executing a simple accession deed and a guarantee and by certifying to MBA that SCC has the necessary power and authority to enter the arrangement. Any borrowing by SCC under the arrangements would carry with it three costs: 1. The interest payable under the loan, the rate of which will be known when the loan is taken out. 2. The costs potentially arising under the contribution loan mechanism in the framework agreement. 3. The costs potentially arising under the guarantee that SCC is required to give as a condition of using the arrangement. It is under 2 and 3 that the potentially significant risk arises, however neither of these two risks are present if SCC accedes to the arrangement but does not borrow any money. Advice was sought from Legal and from a legal perspective a decision to accede but not borrow raises no concerns, however if the Council does borrow it would assume the risk of incurring the costs under 2 and 3 above and should consider the potential scale of that risk with reference to the following issues on each occasion it wished to borrow. Any initial decision to borrow from the Agency will therefore be the subject of a separate report to both Governance Committee and Full Council. Further a report setting out in full the details, options and risks of the MBA will be considered by full Council on 10 February 2016.
	Lender's Option Borrower's Option Loans (LOBOs)
34.	The Authority holds £9M of LOBO loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. All of these LOBOS have options during 2016/17 and although the Authority understands that lenders are unlikely to exercise their options in the current low interest rate environment, there remains an element of refinancing risk. The Authority will take the option to repay LOBO loans at no cost if it has the opportunity to do so.
	Short Term and Variable Rates
35.	Included within the PWLB portfolio is £35M of variable rate Loans, which are currently averaging 0.70% 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 60), the Council review these regularly and if appropriate will switch into fixed rate loans.
36.	A 'Treasury Risk Reserve' is maintained to offset the risk of any unexpected rise in interest rates or the possible loss of investment due to the changes in banking regulations which increased the risk to Local Authorities. This reserve currently stands at £2M and is reviewed in line with the associated risks as detailed in CFO

	statement within the Budget Setting Report.
	Debt Rescheduling
37.	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. Other 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 cost saving or a reduction in risk.
	INVESTMENT STRATEGY
38.	Both the CIPFA and DCLG's Investment Guidance requires the authority to invest prudently and have regard to the security and liquidity of investments before seeking the optimum yield.
39.	The Authority has held significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months the Authority's investment balances have ranged between £92M and £125M and are currently £102M. Projected balances indicate that on present levels of spend we should have similar balances to last year, but this will be dependent on any borrowing decisions taken.
	Objectives
40.	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.
	Strategy
41.	Given the increasing risk and continued low returns from short-term unsecured bank investments, the Authority aims to continue to diversify into more secure and/or higher yielding asset classes during 2016/17. **Table 2** below shows the makeup of the Authority's current investments.

	Table 2 – Investments as at 31 December 2015

	Current Investment	Average Yield/ Rate	Forecast Yield
	£M	%	£'000
Specified Investments			
Cash	46.4	0.49	200
Short Term Fixed Deals	-	0.43	2
Corporate Bonds (not subject to Bail in)	15.3	0.98	185
Other Bonds	12.0	0.82	82
	73.7		**469**
Unspecified Investments			
Long term Bonds (not subject to Bail in)	15.9	1.90	300
Other Bonds	5.1	0.69	29
CCLA Property Fund	7.0	4.75	360
	28.0		**689**
Total Investment	**101.7**	**1.84**	**1,158**
Total Investment excluding CCLA	**94.7**	**1.30**	**798**

	Approved Counterparties
42.	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 4.
43.	**Credit Rating:** Investment decisions are informed 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.
44.	**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.
45.	**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.
46.	**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.
47.	**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.
48.	**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.
49.	**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. Short-term Money Market Funds that offer same-day liquidity very low or no volatility 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.
50.	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.
51.	Any institution will be suspended or removed should any of the factors identified in paragraph 55 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
52.	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
53.	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.
54.	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
55.	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: o the UK Government, o a UK local authority, parish council or community council, or o 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
56.	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 3 below.

Table 3 – Non Specified Investment Limits 2016/17

	Cash Limit
Total long-term investments	£55M
Total investments without credit ratings or rated below A-	£10M
Total investments in foreign countries rated below AA+	£5M
Total non-specified investments	**£70M**

57. **Investment Limits:** The Authority's revenue reserves and balances available to cover investment losses (excluding Schools, capital and HRA) are forecast to be £75.3M on 31st March 2016. 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. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries. Appendix 3 shows the current working limits in more detail.

	Cash limit
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	£70M per broker
Foreign countries	£10M per country
Registered Providers	£5M in total
Unsecured investments with Building Societies	£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

**This is the absolute limit and the working limit will be monitored against actual cash flows and movement on reserves together with advice from our financial advisors and will be adjusted each quarter as necessary in agreement with the CFO.*

	Liquidity Management
	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.
	TREASURY MANAGEMENT INDICATORS
58.	The Authority measures and manages its exposure to treasury management risks using the following indicators.
	Liquidity
59.	The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments and has set a £25M minimum threshold on cash available in instant access accounts, if balances were to fall below this limit we would consider taking short term loans which are available at completive rates.
	Upper Limits for Fixed and Variable Interest Rate Exposure
60.	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.
	Table 4 – Upper Limits for Fixed and Variable Interest Rate Exposure

	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

61.	Fixed rate investments and borrowing are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate.
62.	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
63.	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 as set out in **Table 5** below:

	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

64. 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.

65. **Table 6** 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 31/12/2015 £M	Average Fixed Rate as at 31/12/2015 %	% of Fixed Rate as at 31/12/2015	Compliance with set Limits?
Under 12 months	0	45	9.4	3.10	4.47	Yes
12 months and within 24 months	0	45				Yes
24 months and within 5 years	0	50	11.5	2.83	5.48	Yes
5 years and within 10 years	0	75	49.5	3.51	23.67	Yes
10 years and within 15 years	0	75				Yes
15 years and within 20 years	0	75				Yes
20 years and within 25 years	0	75	10.0	4.68	4.78	Yes
25 years and within 30 years	0	75	5.0	4.60	2.39	Yes
30 years and within 35 years	0	75	25.0	4.62	11.95	Yes
35 years and within 40 years	0	75	36.7	3.54	17.55	Yes
40 years and within 45 years	0	75	47.9	3.59	22.90	Yes
45 years and within 50 years	0	75	14.2	3.70	6.81	Yes
50 years and above	0	100				Yes
			209.2	**3.57**	**100**	

	Principal Sums Invested for Periods Longer than 364 days
66.	The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end is shown in **Table 7**.
	Table 7 – Principal Sums Invested for Periods Longer than 364 days

	Current £M	2016/17 £M	2017/18 £M	2018/19 £M
Limit on principal invested beyond year end	55	55	55	55

	OTHER ITEMS
67.	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
68.	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).
69.	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 and forward starting transactiuons, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.
70.	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
71.	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.
72.	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
73.	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 last undertaken on the 2 November 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
74.	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 Limited as 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
75.	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.
	FINANCIAL IMPLICATIONS
76.	The budget for debt interest paid in 2016/17 is £14.5M based on an average debt portfolio of £401.5M and an average interest rate of 3.6%. Investment income for 2016/17 is budgeted at £0.8M based on an average portfolio of £55.2M at an average of 1.44%. If actual levels of investments and borrowing, and actual interest rates differ from those forecast, performance against budget will be correspondently different.
	2016/17 MINIMUM REVENUE PROVISION (MRP) STATEMENT
77.	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.
78.	The CLG Guidance requires the Authority to approve an Annual MRP Statement each year. We have undertaken a prudency review of borrowing prior to the prudential regime and are currently discussing the proposed changes with our auditors. We will apply either the Regulatory or CFR method depending on the outcome of this. The asset life method will be applied to prudential borrowing unless it is for Investment purposes in which case no MRP will be applied.
79.	We will continue to review MRP and it is proposed that delegated powers should be given to the CFO to change the proposed methods to aid good financial management whilst maintaining a prudent approach Any changes to the original MRP Statement during the year will be reported as part of quarterly financial and performance monitoring and in revisions to the TM strategy as part of the year end and midyear reviews.
80.	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.
81.	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.
82.	Capital expenditure incurred during 2016/17 and funded from borrowing will not be subject to a MRP charge until 2017/18.
83.	Based on the Authority's latest estimate of its Capital Financing Requirement on 31 March 2016 the budget for MRP has been set on the assumption that we will be using the regulatory method for borrowing prior to the prudential regime (but

	reducing the percentage applied from 4% to 2%) and using the asset life method for prudential borrowing where it applies. These assumptions form the basis of the MRP savings included within the General Fund Budget Report 2016/17 to 2019/20 to be reported to Council 10 February 2016. The estimated levels of MRP and CFR are shown in **Table 8** below:

Table 8 – Estimated MRP and CFR for 2016/17

	31/03/2015 Actual CFR £M	2015/16 MRP £M	31/03/2016 Estimated CFR £M	2016/17 Estimated MRP £M
Capital expenditure before 01.04.2008	95.6	1.47	91.9	1.39
Unsupported capital expenditure after 31.03.2008	96.0	3.01	112.1	3.32
Transferred debt	15.7	0.36	15.3	0.36
Finance leases and Private Finance Initiative	66.8	2.06	64.8	2.53
Total General Fund	**274.1**	**7.17**	**284.1**	**7.60**
Assets in the Housing Revenue Account	100.9	Nil	127.1	Nil
HRA subsidy reform payment	52.6	5.14	47.5	5.17
Total Housing Revenue Account	**153.5**	**5.14**	**174.6**	**5.17**
Total	**427.6**	**12.31**	**458.7**	**12.77**

	MONITORING AND REPORTING ON THE ANNUAL TREASURY OUTTURN AND OTHER PRUDENTIAL INDICATORS
84.	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.
85.	In addition, a quarterly update will be presented to Cabinet as part of Quarterly Revenue Financial Monitoring.
	PRUDENTIAL INDICATORS
	Background
86.	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
87.	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.
88.	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.
89.	The estimated gross debt and capital financing requirement is shown in the tables below:

Table 9 – Gross Debt

	31/03/2016 Revised £M	31/03/2017 Estimate £M	31/03/2018 Estimate £M	31/03/2019 Estimate £M
Borrowing (Long Term)	110.84	186.5	187.2	187.8
Borrowing (Temporary)	30.0	30.0	30.0	30.0
Finance leases and Private Finance Initiative	64.8	62.3	60.4	58.3
Transferred debt	15.6	15.3	14.9	14.6
Total General Fund Debt	**221.24**	**294.1**	**292.5**	**290.7**
HRA	174.6	193.9	190.2	190.6
Total	**395.8**	**488.0**	**482.7**	**481.3**

Table 10 – Movement in CFR

	31/03/2016 Revised £M	31/03/2017 Estimate £M	31/03/2018 Estimate £M	31/03/2019 Estimate £M
Balance Brought Forward	274.1	284.1	352.1	345.4
New Borrowing	17.5	75.5	0.3	0.1
MRP	(4.5)	(4.7)	(4.8)	(4.8)
Appropriations	(0.6)			
Movement in Other Liabilities	(2.4)	(2.8)	(2.2)	(2.4)
Total General Fund Debt	**284.1**	**352.1**	**345.4**	**338.3**
HRA (see Table 15 for breakdown)	174.6	193.9	190.2	190.5
Total	**458.7**	**546.0**	**535.6**	**528.8**

Estimates of Capital Expenditure

90. 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.

Table 11 – Capital Expenditure

Capital Expenditure and Financing	2015/16 Estimate £M	2015/16 Revised £M	2016/17 Estimate £M	2017/18 Estimate £M	2018/19 Estimate £M
General Fund	46.78	49.25	111.08	6.28	0.27
HRA	65.55	54.96	58.89	35.37	38.67
Total Expenditure	**112.33**	**104.21**	**169.97**	**41.65**	**38.94**
Capital receipts	14.04	1.02	3.73	3.48	2.77
Capital Grants	28.02	25.05	31.15	4.95	0.00
Contributions	4.04	6.66	3.51	1.90	0.08
Major Repairs Allowance	18.97	18.98	19.89	20.33	20.71
Revenue	12.03	9.36	11.63	9.26	9.76
Total Financing	**77.10**	**61.07**	**69.91**	**39.92**	**33.32**
Temporary Financing	(1.00)	0.00	0.00	0.00	0.00
Unsupported borrowing	36.22	43.14	100.06	1.73	5.62
Total Funding	**35.22**	**43.14**	**100.06**	**1.73**	**5.62**
Total Financing & Funding	**112.33**	**104.21**	**169.97**	**41.65**	**38.94**

Ratio of Financing Costs to Net Revenue Stream

91. 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.

92.	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.
	Table 12 – Ratio of Financing Costs to Net Revenue Stream

93.

Ratio of Financing Costs to Net Revenue Stream	2014/15 Actual %	2015/16 Approved %	2015/16 Forecast %	2016/17 Estimate %	2017/18 Estimate %	2018/19 Estimate %
General Fund	5.76%	6.83%	4.7%	7.22%	8.38%	8.67%
HRA	14.61%	14.93%	14.18%	15.48%	15.60%	16.11%
Total	9.07%	10.17%	8.45%	10.74%	11.52%	11.98%

Incremental Impact of Capital Investment Decisions

94.	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 shown below. These figures exclude any borrowing taken for Invest to Save schemes, as borrowing costs will be offset by income generation.
	Table 13– Incremental Impact of Capital Investment Decisions

95.

Incremental Impact of Capital Investment Decisions	2015/16 Approved £	2016/17 Estimate £	2017/18 Estimate £	2018/19 Estimate £
Increase / (Decrease) per average number of equivalent band D properties for Council Tax purposes	5.36	7.44	12.03	12.15
Increase in Average Weekly Housing Rents	57.92	58.89	35.37	38.67

96.	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 since the last capital update published in September.
97.	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

98.	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.
99.	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).
	Table 14 – Authorised Limit for External Debt

100.

Authorised Limit for External Debt	Actual 31 December 2015 £M	2015/16 Approved £M	2015/16 Estimate £M	2016/17 Estimate £M	2017/18 Estimate £M	2018/19 Estimate £M
Borrowing	244.2	640	651	779	943	929
Other Long-term Liabilities	78.8	87	87	84	81	79
Total	**323.0**	**727**	**738**	**863**	**1,024**	**1,008**

101.	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
	Table 15–Operational Boundary for External Debt

102.

Operational Boundary for External Debt	Actual 31 December 2015 £M	2015/16 Approved £M	2015/16 Estimate £M	2016/17 Estimate £M	2017/18 Estimate £M	2018/19 Estimate £M
Borrowing	244.2	466	509	616	657	668

Other Long-term Liabilities	78.8	87	87	84	81	79
Total	**323.0**	**553**	**596**	**700**	**738**	**747**

103. 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.

HRA Limit on Indebtedness

104. 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 of £199.6M.

Table 16 – HRA Limit on Indebtedness

105.

HRA Summary of Borrowing	2015/16 Approved £M	2015/16 Estimate £M	2016/17 Estimate £M	2017/18 Estimate £M	2018/19 Estimate £M
Brought Forward	157.5	153.5	174.6	193.9	190.2
Maturing Debt	(5.1)	(5.1)	(5.2)	(5.2)	(5.2)
New borrowing	34.4	25.6	24.5	1.5	5.5
Appropriations		0.6			
Carried forward	**186.8**	**174.6**	**193.9**	**190.2**	**190.5**

RESOURCE IMPLICATIONS

Capital/Revenue

106. The revenue and capital implications are considered as part of ongoing monitoring which is reported to Cabinet each quarter and as part of the budget setting process.

Property/Other

107. None

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

108. 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.
Other Legal Implications:	
109.	None
POLICY FRAMEWORK IMPLICATIONS	
110.	This report has been prepared in accordance with the CIPFA Code of Practice on TM.

KEY DECISION?	No
WARDS/COMMUNITIES AFFECTED:	None

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**
Privacy Impact Assessment		
Do the implications/subject of the report require a Privacy Impact Assessment (PIA) to be carried out.		**No**
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 2016/17 to 2017/18	Item 80
2.	Treasury Management Strategy and Prudential Limits Midyear Review 2015	Item 12