DECISION-MAKER:		GOVERNANCE COMMITTEE COUNCIL		
SUBJECT:		REVIEW OF PRUDENTIAL LIMITS AND TREASURY MANAGEMENT OUTTURN 2015/16		
DATE OF DECISION:		6 JUNE 2016 20 JULY 2016		
REPORT OF:		SECTION 151 OFFICER (S151)		
CONTACT DETAILS				
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STATEMENT OF CONFIDENTIALITY				
NOT APPLICABLE				

BRIEF SUMMARY

The purpose of this report is to inform the Governance Committee and Council of the Treasury Management activities and performance for 2015/16 against the approved Prudential Indicators for External Debt and Treasury Management.

This report specifically highlights that:

i. Borrowing activities have been undertaken within the borrowing limits approved by Council on 10 February 2016.

ii. Current Investment strategy is to continue to diversify into more secure and/or higher yielding asset classes and move away from the increasing risk and low returns gained from short term unsecured bank investments. Returns during 2015/16 were £1.2M at an average rate of 1.85%.

iii. The Council's strategy was to minimise borrowing to below its Capital Financing Requirement (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. Throughout the year, capital expenditure levels, market conditions and interest rate levels were monitored to minimise borrowing costs over the medium to longer term and to maintain stability. The differential between debt costs and investment earnings continued 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. As a result the average rate for repayment of debt, (the Consolidated Loans & Investment Account Rate – CLIA), at 3.33%, is lower than that budgeted and slightly lower than last year (3.34%).This includes £8M of short term debt which was taken during March for cash flow purposes and was repaid in April . No new long term loans were taken during the year due to slippage in the capital programme and higher than expected balances. As can be seen in table 2 in appendix 1, the average rate for a 20 year

fixed rate maturity loan from the Public Works Loan Board (PWLB) was 3.46% during 2015/16. The predicted forecast for longer term debt is a steady increase in the longer term and so new long term borrowing is likely to be taken out above this rate, leading to an anticipated increase in the CLIA.

iv. In achieving interest rate savings the Council is exposed to interest rate risk by taking out variable debt. This was and continues to be very financially favourable in current markets but does mean that close monitoring of the markets is required to ensure that the Council can act quickly should the situation begin to change.

v. Net loan debt decreased during 2015/16 from £244M to £240M as detailed in paragraph 14.

vi. The Council can confirm that it has complied with the Prudential Indicators approved by Full Council on 10 February 2016.

vii. In order to generate revenue savings in 2015/16, the authority has further revised the MRP policy as detailed in paragraphs 50 to 52.

RECOMMENDATIONS:

GOVERNANCE COMMITTEE

It is recommended that Governance Committee:

i) Notes the Treasury Management (TM) activities for 2015/16 and the outturn on the Prudential Indicators

ii) Notes that the continued proactive approach to TM has led to reductions in borrowing costs and safeguarded investment income during the year.

iii) Notes the revised MRP Policy as set out in paragraphs 50 to 52.

iv) Endorses the recommendation to Council to approve the revised MRP policy and delegates authority to the S151 Officer to make any future changes which benefit the authority and to report back at the next Treasury update.

COUNCIL

It is recommended that Council:

i) Notes the Treasury Management (TM) activities for 2015/16 and the outturn on the Prudential Indicators

ii) Notes that the continued proactive approach to TM has led to reductions in borrowing costs and safeguarded investment income during the year.

iii) Approves the revised MRP policy as detailed in paragraphs 50 to 52 and delegates authority to the S151 Officer to make any future changes which benefit the authority and to report back at the next Treasury update.

REASONS FOR REPORT RECOMMENDATIONS

1. The reporting of the outturn position for 2015/16 forms part of the approval of the statutory accounts. The Treasury Management (TM) Strategy and Prudential Indicators are approved by Council in February each year in accordance with legislation and the Chartered Institute of Public Finance & Accountancy (CIPFA)

Code of Practice.

2. The Treasury Management Code requires public sector authorities to determine an annual TM Strategy and now, as a minimum, formally report on their treasury activities and arrangements to full Council mid-year and after the year-end. These reports enable those tasked with implementing policies and undertaking transactions to demonstrate they have properly fulfilled their responsibilities, and enable those with ultimate responsibility/governance of the TM function to scrutinise and assess its effectiveness and compliance with policies and objectives.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

3. No alternative options are relevant to this report

DETAIL (Including consultation carried out)

CONSULTATION

4. Not applicable

BACKGROUND

5. 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.

6. The Chartered Institute of Public Finance and Accountancy's Treasury Management Code (CIPFA's TM Code) requires that authorities report on the performance of the treasury management function at least twice a year (mid-year and at year end).

7. The Authority's TM Strategy for 2015/16 was approved by full Authority on 11 February 2015 which can be accessed as Item 80 on the Council Meetings Agenda found via the following web link: Treasury Management Strategy and Prudential Limits 2015/16 to 2017/18

These were subsequently revised as part of the Council's Treasury Management Strategy Statement for 2016 on 10 February 2016, item 6. Prudential Limits and Treasury Management Strategy 2016/17 to 2018/19

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. This report:

a) is prepared in accordance with the revised CIPFA Treasury Management Code and the revised Prudential Code;
b) presents details of capital financing, borrowing, debt rescheduling and investment transactions;
c) reports on the risk implications of treasury decisions and transactions;

d) gives details of the outturn position on treasury management transactions in 2015/16; and
e) confirms compliance with treasury limits and Prudential Indicators.

10. Appendix 2 summarises the economic outlook and events in the context of which the Council operated its treasury function during 2015/16.

BORROWING REQUIREMENT AND DEBT MANAGEMENT

11. 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.

12. The Authority is able to borrow funds in excess of the current level of its CFR up to the projected level in 2018/19. 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 is actually required.

13. The forecast movement 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. This is shown in the tables below together with activity in the year.

14. ***Table 1: Net Borrowing Position***

	31-Mar-15 Actual £M	31-Mar-16 Actual £M	31-Mar-17 Current Estimate £M	31-Mar-18 Current Estimate £M	31-Mar-19 Current Estimate £M
External Borrowing:					
Fixed Rate – PWLB Maturity	139	139	246	254	267
Fixed Rate – PWLB EIP	70	58	46	35	23
Variable Rate – PWLB	35	35	35	35	35
Variable Rate – Market	9	9	9	9	9
Long Term Borrowing	**253**	**241**	**336**	**333**	**334**
Short Term Borrowing					
Fixed Rate – Market	0	8	30	30	30
Other Long Term Liabilities					
PFI / Finance leases	67	65	62	60	58
Deferred Debt Charges	16	15	15	15	15
Total Gross External Debt	336	329	443	438	437
Investments:					
Managed In-House					
Deposits and monies on call and Money Market Funds	(55)	(40)	(25)	(25)	(25)
Financial Instruments	(32)	(42)	(20)	(20)	(20)
Managed Externally					
Pooled Funds	(5)	(7)	(7)	(7)	(7)
Total Investments	(92)	(89)	(52)	(52)	(52)
Net Borrowing Position	**244**	**240**	**391**	**386**	**385**

Table 2: Movement in Borrowing during the year

15.

	Balance on 01/04/2015 £M	Debt Maturing or Repaid £M	New Borrowing £M	Balance as at 31/3/2016 £M	Increase/ (Decrease) in Borrowing £M	Average Life / Average Rate %	
						Life	%
Short Term Borrowing	0	0	8	8	8		
Long Term Borrowing	253	(12)	0	241	(12)	22 Years	3.33
Total Borrowing	**253**	**(12)**	**8**	**249**	**(4)**		

Please note that these figures do not reflect the accounting convention of moving loans maturing in the year from long term to short term.

16. When the strategy was last updated in February 2016, the CFR was estimated at £458.7M, the Council's actual CFR at the end of the year was £435.7M, as detailed in table 2 of Appendix 3. This decrease was mainly due to slippage in the capital programme.

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

18. The PWLB remains the Council's preferred source of long term borrowing given the transparency and control that its facilities continue to provide. However due to the continued depressed markets and the 'cost of carry' associated with long term

debt, the Council deferred long term borrowing and has continued to use internal resources to finance the capital programme. This will be kept under review during 2016/17 with the need to resource an increasing capital programme.

Loans at Variable Rates

19. Included within the debt portfolio is £35M of PWLB variable rate loans which during 2015/16 averaged a rate of 0.70% this helps to mitigate the impact of changes in variable rates on the Authority's overall treasury portfolio (the Authority's investments are deemed to be variable rate investments due to their short-term nature). This strategic exposure to variable interest rates will be regularly reviewed and, if appropriate, reduced by switching into fixed rate loans.

Internal Borrowing

20. Given the significant cuts to local government funding putting pressure on Council finances, the strategy followed was to minimise debt interest payments without compromising the longer-term stability of the portfolio.

21. As at the 31 March 2016 the Council used £106M of internal resources in lieu of borrowing which has been the most cost effective means of funding past capital expenditure to date. This has lowered overall treasury risk by reducing both external debt and temporary investments. However, this position will not be sustainable over the medium term and the Council will need to borrow to cover this amount as balances fall. Following the latest update of the Capital Programme, approved by Council in February 2016, the Council is expected to borrow up to £127.5M between 2016/17 and 2018/19. Of this £107.6M relates to new capital spend (£76M GF and £31.5M HRA) and the remainder to the refinancing of existing debt and externalising internal debt to cover the expected fall in balances and also the need to lock back into longer term debt prior to interest rises.

22. However as short-term interest rates have remained low, and 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 instead.

23. The benefits of internal borrowing were monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise providing that balances can support it. Our advisors assist the Authority with this 'cost of carry' and breakeven analysis.

Lender's Option Borrower's Option Loans (LOBOs)

24. 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 had options during the year, none of which were exercised by the lender, but if they were it is likely that they would be replaced by a PWLB loan.

LGA Bond Agency

25. UK Municipal Bonds Agency (MBA) plc was established in 2014 by the Local Government Association as an alternative to the PWLB with plans to issue bonds on the capital markets and lend the proceeds to local authorities. In early 2016 the Agency declared itself open for business, initially only to English local authorities. The Authority has analysed the potential rewards and risks of borrowing from the MBA and full council approved and signed the Municipal Bond Agencies framework agreement which sets out the terms upon which local authorities will borrow, including details of the joint and several guarantee. This was submitted on 10 February 2016, item 7. Municipal Bond Agency The first bond is expected to be issued in the Autumn of 2016.

Debt Rescheduling

26. The premium charge for early repayment of PWLB debt remained relatively expensive for the loans in the Authority's portfolio and therefore unattractive for debt rescheduling activity. No rescheduling activity was undertaken as a consequence.

INVESTMENT ACTIVITY

27. 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.

28. The Authority has held significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2015/16 the Authority's investment balances have ranged between £79.8M and £123.3M. This is summarised in the table below:

Table 3: Investment activity during the year

	Balance on 01/04/2015	Investments Repaid	New Investments	Balance as at 31/3/2016	Increase/ (Decrease) in Investment for Year	Average Life / Average Rate %	
	£M	£M	£M	£M	£M	Life	%
Short Term Investments	0	(5)	5	0	0		
Money Market Funds & Call Accounts	55	(417)	397	35	(20)	1 Day	0.50
Notice Accounts	0		5	5	5	180 Day	1.16
Bonds	32	(40)	50	42	10	278 days	1.43
Local Authority Property Fund	5	0	2	7	2	Unspecified	5.03
Total Investments	**92**	**(462)**	**459**	**89**	**(3)**		**1.85**

29. Security of capital has remained the Authority's main investment objective. This has been maintained by following the Authority's counterparty policy as set out in its TM Strategy Statement for 2015/16. The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio, which is supplied by our advisors. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment.

	Target	Actual
Portfolio average credit rating	A-	AA

30. Counterparty credit quality was assessed and monitored with reference to credit ratings (the Authority's minimum long-term counterparty rating is A-) across

rating agencies Fitch, S&P and Moody's); for financial institutions analysis of funding structure and susceptibility to bail-in, credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. The authority also used secured investments products that provide collateral in the event that the counterparty cannot meet its obligations for repayment.

31. The table below summarises the Council's investment portfolio at 31 March 2016 by credit rating and confirms that all investments were made in line with the Council's approved credit rating criteria:

Table 4: Credit ratings of Investments held at 31st March 2016

32.

	Long Term		Short Term	
Credit Rating	2015	2016	2015	2016
	£000	£000	£000	£000
AAA	14,298	12,556	2,271	11,128
AA+	3,246	3,358	138	3,660
AA			5,932	
AA-			25,380	2,212
A+			17,443	2,702
A			16,080	16,303
A-			2,014	
Shares in unlisted companies		20		
Unrated pooled funds	5,295	7,597		29,169
Total Investments	**22,839**	**23,531**	**69,258**	**65,174**

Credit Developments and Credit Risk Management

33. The transposition of two European Union directives into UK legislation placed the burden of rescuing failing EU banks disproportionately onto unsecured institutional investors which include local authorities and pension funds. During the year, all three credit ratings agencies reviewed their ratings to reflect the loss of government support for most financial institutions and the potential for loss given default as a result of new bail-in regimes in many countries. Despite reductions in government support many institutions saw upgrades due to an improvement in their underlying strength and an assessment that the level of loss given default is low.

34. Fitch reviewed the credit ratings of multiple institutions in May. Most UK banks had their support rating revised from 1 (denoting an extremely high probability of support) to 5 (denoting external support cannot be relied upon). This resulted in the downgrade of the long-term ratings of Royal Bank of Scotland (RBS), Deutsche Bank, Bank Nederlandse Gemeeten and ING. JP Morgan Chase and the Lloyds Banking Group however both received one notch upgrades.

35. Moody's concluded its review in June and upgraded the long-term ratings of

Close Brothers, Standard Chartered Bank, ING Bank, Goldman Sachs International, HSBC, RBS, Coventry Building Society, Leeds Building Society, Nationwide Building Society, Svenska Handelsbanken and Landesbank Hessen-Thuringen.

36. S&P reviewed UK and German banks in June, downgrading the long-term ratings of Barclays, RBS and Deutsche Bank. S&P also revised the outlook of the UK as a whole to negative from stable, citing concerns around the referendum on EU membership and its effect on the economy.

37. At the end of July 2015, our advisors, Arlingclose, advised an extension of recommended durations for unsecured investments in certain UK and European institutions following improvements in the global economic situation and the receding threat of another Eurozone crisis. A similar extension was advised for some non-European banks in September, with the Danish Danske Bank being added as a new recommended counterparty and certain non-rated UK building societies also being extended.

38. In September, Volkswagen was found to have been cheating emissions tests over several years in many of their diesel vehicles. The council's treasury advisor, Arlingclose Ltd, recommended suspending VW (as a non-financial corporate bond counterparty) for new investments. As issues surrounding the scandal continued, there were credit rating downgrades across the Volkswagen group by all of the ratings agencies. Volkswagen AG is now (as at 11/04/16) rated A3, BBB+ and BBB+ by Moody's, Fitch and S&P respectively. Volkswagen International Finance N.V is rated A3 and BBB+ by Moody's and Fitch respectively and Volkswagen Financial Services N.V. is now rated A1 by Moody's. We had one bond of £1.5M which was repaid with interest on the 23rd May 2016.

39. In December the Bank of England released the results of its latest stress tests on the seven largest UK banks and building societies which showed that the Royal Bank of Scotland and Standard Chartered Bank were the weakest performers. However, the regulator did not require either bank to submit revised capital plans, since both firms had already improved their ratios over the year.

40. In January 2016, Arlingclose supplemented its existing investment advice with a counterparty list of high quality bond issuers, including recommended cash and duration limits. As part of this, Bank Nederlandse Gemeeten was moved to the list of bond issuers from the unsecured bank lending list and assigned an increased recommended duration limit of 5 years. Interest rates are likely to stay low for longer making long-term bonds an increasingly attractive option. The Council made use of these long-term investment options during 2015/16.

41. The first quarter of 2016 was characterised by financial market volatility and a weakening outlook for global economic growth. In March 2016, following the publication of many banks' 2015 full-year results, Arlingclose advised the suspension of Deutsche Bank and Standard Chartered Bank from the counterparty list for unsecured investments. Both banks recorded large losses and despite improving capital adequacy this will call 2016 performance into question, especially if market volatility continues. Standard Chartered had seen various rating actions taken against it by the rating agencies and a rising CDS level throughout the year. Arlingclose will continue to monitor both banks.

42. The end of bank bail-outs, the introduction of bail-ins, and the preference being given to large numbers of depositors other than local authorities means that the risks of making unsecured deposits continues to be elevated relative to other investment options. The Authority therefore increasingly favoured secured investment options or diversified alternatives such as covered bonds, non-bank investments and pooled funds over unsecured bank and building society deposits.

43. In February 2015 full Council agreed for the authority to make an investment of £20,000 to become Shareholders in the Local Capital Finance Company Ltd, which is now known as the UK Municipal Bonds. The Agency is wholly owned by 56 local authorities and the Local Government Association ("LGA"). As detailed in paragraph 25 above, this was set up as an alternative to the PWLB with plans to issue bonds on the capital markets and lend the proceeds to local authorities.

44. Or advisors produce quarterly benchmarking which shows the breakdown of our investments and how we compare to their other clients and other English Unitary Authority's, this shows that on average we have a higher credit rating and have less exposure to Bail- in which reflects our change in strategy during 2015. Details can be seen in Appendix 4.

Liquidity Management

45. In keeping with the DCLG's Guidance on Investments, the Council maintained a sufficient level of liquidity through the use of Money Market Funds and call accounts. There is no perceived risk that the Council will be unable to raise finance to meet its commitments. The Council also has to manage the risk that it will be exposed to replenishing a significant proportion of its borrowing at a time of unfavourable interest rates. The Council would only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities. The maturity analysis of the Council's debt at 31 March 2016 can be seen in table 6 of Appendix 3.

Externally Managed Funds

46. The Council has invested £7M in property funds which offer the potential for enhanced returns over the longer term, but may be more volatile in the shorter term. These funds are managed by professional fund managers which allows the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. During 2015/16 this investment returned an average yield of 5.03%, plus capital gains of 3.7%. The net asset value of the fund at 31st March was £7.6M a notional "gain" of £0.6M against initial investment.

COMPLIANCE WITH PRUDENTIAL INDICATORS

47. The Council can confirm that it has complied with its Prudential Indicators for 2015/16, approved by Full Council on 11 February 2015 which can be accessed as Item 80 on the Council Meetings Agenda found via the following web link: Treasury Management Strategy and Prudential Limits 2016/17 to 2017/18

These were subsequently revised as part of the Council's Treasury Management Strategy Statement for 2016 on 10 February 2016, item 6. Prudential Limits and Treasury Management Strategy 2016/17 to 2018/19

48. In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary report of TM activity during 2015/16. None of the Prudential Indicators has been breached and a prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield. The table below summarises the Key Indicators other indicators can be found in Appendix 3.

49. ***Table 5: Key Prudential Indicators***

Indicator	Limit	Actual at 31 March 2016
Authorised Limit for external debt £M	£738M	£329M
Operational Limit for external debt £M	£596M	£329M
Maximum external borrowing in year		£252.7M
Limit of fixed interest debt %	100%	82.3%
Limit of variable interest debt %	50%	17.7%
Limit for Non-specified investments £M	£70M	£33M

OTHER ITEMS

Minimum Revenue Provision (MRP)

50. 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, the Council's strategy was approved as part of the 2016/17 and 2017/18 reports. However following a further review of the guidance the Council has revised this in order to achieve additional revenue savings.

51. In summary we have applied the annuity method for prudential borrowing and reassessed the life of assets from 25 to 50 years for borrowing prior to 2008. This has led to an over provision of MRP for the period up to 31st March 2015, so no MRP was applied for 2015/16 except for PFI schemes, finance leases and deferred debt charges. Plus the HRA made a voluntary payment of £5.1M. This policy will continue until the over provision has been utilised.

52. It should be further noted that as a result of the creation of the Property Investment Fund (PIF), detailed in paragraph 53 below, it is recommended that the 2016/17 MRP statement be updated to note that MRP will be charged on investment properties acquired as part of the fund using the depreciation method calculation. It is further recommended that the S151 Officer continues to have delegated powers to make changes to the proposed methods used to calculate MRP to aid good financial management whilst maintaining a prudent approach.

<u>Future Developments and Amendment to Prudential Indicators</u>

53. The approved 2016/17 general fund revenue estimates assume an additional net £1M of revenue income to be generated from the creation of a Property Investment Fund (PIF). An investment business plan has been drawn up and identifies the potential types of investment that may be undertaken. One of these options is the potential to undertake further investment in property funds. It is expected that this

activity can be accommodated with in the current borrowing limits and prudential indicators agreed as part of the approved TM Strategy. However, these limits and indicators will be reviewed in line with any investment activity of this type. It is recommended that the S151 officer continues to have delegated authority to approve any changes required to the limits and indicators that will aid good treasury management. Any amendments will be reported as part of the quarterly financial and performance monitoring and in the TM Strategy Review.

Investment Training

54. The needs of the Authority's treasury management staff for training in investment management are assessed as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change. During 2015/16 staff attended training courses, seminars and conferences provided by our advisors (Arlingclose) and CIPFA

55. In November 2015 a training session was held by our advisors and made available to all Members to provide an insight into the issues affecting TM and the basis of the TM strategy being presented.

RESOURCE IMPLICATIONS

Capital / Revenue

56. This report is a requirement of the TM Strategy, which was approved at Council on 11 February 2015 and further revised on 10 February 2016.

57. The interest cost of financing the Authority's long term and short term loan debt is charged corporately to the Income and Expenditure account. The interest cost of financing the Authority's loan debt amounted to £8.9M in 2015/16. This is lower than budgeted mainly due to variable interest rates being lower than those estimated and the deferment of any new long term borrowing.

58. In addition interest earned on temporary balances invested externally is credited to the Income and Expenditure account. In 2015/16 £1.2M was earned which was higher than budgeted mainly due to a move to invest in bonds and LAPF as detailed in paragraphs 27 - 44 above.

59. Overall this has given a saving against the TM Budget of £2.1M.

60. The expenses of managing the Authority's loan debt consist of brokerage and internal administration charges. These are pooled and borne by the HRA and General Fund proportionately to the related loan debt. Debt management expenses amounted to £0.10M in 2015/16 compared to an estimate of £0.14M. This decrease was mainly due a reduction in brokerage costs due to fewer treasury deals being undertaken and deferring PWLB borrowing resulting in a saving on commission paid in year.

Property/Other

61. None

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

62. 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:

63. None

POLICY FRAMEWORK IMPLICATIONS

64. This report has been prepared in accordance with the CIPFA Code of Practice on TM

KEY DECISION? Yes/No

WARDS/COMMUNITIES AFFECTED:	

SUPPORTING DOCUMENTATION

Appendices

1.	Summary of Interest Rates Movement During 2015/16
2.	2015/16 Economic Background
3.	Compliance with Prudential Indicators During 2015/16
4.	Southampton Benchmarking 31st March 2016
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

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 2016/17 to 2017/18	