DECISION-MAKER:		GOVERNANCE COMMITTEE COUNCIL		
SUBJECT:		REVIEW OF PRUDENTIAL LIMITS AND TREASURY MANAGEMENT OUTTURN 2017/18		
DATE OF DECISION:		11 JUNE 2018 18 JULY 2018		
REPORT OF:		Service Director Finance and Commercialisation (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 2017/18 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 21 February 2018.
	(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 2017/18 were £1.41M at an average rate of 3.73%.
	(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.
	(iv)	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 3.31%, is lower than that budgeted and slightly lower than last year (3.33%).This includes £30M of short term debt which was taken during the year. No new long term loans were taken during the year due to

		slippage in the capital programme and higher than expected balances. The predicted forecast rate for longer term debt is already showing a steady increase. It is likely that any new long term borrowing will be taken out above this rate, leading to an increase in the CLIA rate. In line with the current Treasury Strategy it is the intention to continue to borrow in the short term markets during 2018/19 to take further advantage of the current interest environment.
In	(v)	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.
	(vi)	Net loan debt decreased during 2017/18 from £278M to £254M (£24M) as detailed in paragraph 14.
	(vii)	There has been full compliance with the Prudential Indicators approved by Full Council on 21 February 2018
RECOMMENDATIONS:		
GOVERNANCE COMMITTEE		
It is recommended that Governance committee:		
	(i)	Notes the Treasury Management (TM) activities for 2017/18 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)	Continues to delegate authority to the S151 Officer to make any future changes which benefit the authority and to report back at the next Treasury update.
	(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)	Notes the Treasury Management (TM) activities for 2017/18 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)	Continues to delegate 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 2017/18 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 2017/18 was approved by full Authority on 15 February 2017. These were subsequently revised as part of the Council's Treasury Management Strategy Statement for 2018/19 on 21 February 2018.	
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 2017/18; and
	e)	confirms compliance with treasury limits and Prudential Indicators.
10.	Appendix 1 summarises the economic outlook and events in the context of which the Council operated its treasury function during 2017/18.	

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 and the year-on-year change is summarised in table 1 below. Net borrowing has decreased due to a rise in both working capital and usable reserves. As detailed in paragraphs 21 to 24 below, the Authority's current strategy is to maintain borrowing and investments below their underlying levels in order to reduce risk and keep interest costs low.

Table 1 – Balance Sheet Summary

	31/03/2017 Actual £M	2017/18 Movement £M	31/03/2018 Actual £M
General Fund CFR	322.56	(1.09)	321.47
Housing CFR	163.25	(4.77)	158.48
Total CFR	**485.81**	**(5.86)**	**479.95**
Less Other Long Term Liabilities*	(77.18)	3.79	(73.39)
Borrowing CFR	**408.63**	**(2.07)**	**406.56**
Less Usable Reserves	(127.53)	(18.75)	(146.28)
Less Working Capital	(64.75)	(0.91)	(65.66)
Net Borrowing	**216.35**	**(21.73)**	**194.62**

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

12. 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.

13. *Table 2: Borrowing and Investment Position*

	31- Mar-17		31st March 2018	Average Rate	31-Mar-19	
	Actual £M	Average Rate %	£M	%	Forecast £M	Forecast Average Rate %
External Borrowing:						
Fixed Rate – PWLB Maturity	139	3.90	139	3.9	139	3.90
Fixed Rate – PWLB EIP	46	3.38	35	3.41	23	3.39
Variable Rate – PWLB	35	0.60	35	0.44	35	0.85
Fixed Rate – LOBO	9	4.86	9	4.86	9	4.86
Long Term Borrowing	**229**	**3.33**	**218**	**3.31**	**206**	**3.37**
Short Term Borrowing						
Fixed Rate – Market	31	0.40	33	0.47	90	0.90
Other Long Term Liabilities						
PFI Schemes	62	9.51	59	8.59	57	8.83
Deferred Debt Charges (HCC)	15	3.08	14	2.74	14	2.93
Total Gross External Debt	**337**	**4.36**	**325**	**4.02**	**367**	**3.77**
Investments:						
Managed In-House						
Bank & Building Societies (unsecured)	(9)	0.62	(7)	0.50	(5)	0.75
Covered Bonds (secured)	(12)	1.10	(6)	1.39	(5)	1.17
Multi - National Bonds (not subject to bail in)	(4)	5.30	(4)	5.30	(3)	5.30
Corporate and Other Bonds (not subject to bail in)	(3)	0.87	0	0.00	0	0.00
Money Market Funds	(14)	0.29	(19)	0.43	(10)	0.75
Government & local Authority	0	0.00	(10)	0.85	0	0.00
Managed Externally						
Pooled Funds (LAPF)	(17)	4.77	(27)	4.63	(27)	4.50
Total Investments	**(59)**	**2.74**	**(73)**	**3.98**	**(56)**	**2.75**
Net Debt	**278**		**254**		**311**	

14. *Table 3: Movement in Borrowing during the year*

	Balance on 01/04/2017 £M	Debt Maturing or Repaid £M	New Borrowing £M	Balance on 31/03/2018 £M	Increase/ (Decrease) in Borrowing for Year £M	Average Life / Average Rate % Life	%
Short Term	31	(31)	30	33	(1)	**6 Months**	**0.40**
Long Term	229	(5)	0	218	(5)	**21 Years**	**3.43**
Total Borrowing	260	(36)	30	251	(6)		

	Please note that these figures do not reflect the accounting convention of moving loans maturing in the year from long term to short term.
15.	When the strategy was last updated in February 2018, the CFR was estimated at £506.71M, the Council's actual CFR at the end of the year was £479.95M, as detailed in section 2 of Appendix 2. This decrease was mainly due to slippage in the capital programme.
16.	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.
17.	In undertaking of these objectives, no new long term borrowing was undertaken and short borrowing was kept to a minimum during the year, while existing loans were allowed to mature without replacement. This strategy enabled the Authority to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The "cost of carry" analysis did not indicate any value in borrowing in advance for future years' planned expenditure and therefore none was taken.
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 2018/19 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 2017/18 averaged a rate of 0.44% 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 pressures on the revenue budget and significant reduction in revenue support grant, the strategy followed was to minimise the cost of TM by keeping debt interest payments as low as possible without compromising the longer-term stability of the portfolio.
21.	As at the 31 March 2018 the Council used £155M 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 2018 and adjusted for slippage from 2017/18, the Council is expected to borrow up to £186.13M between 2018/19 and 2021/22. Of this £138.61M relates to new capital spend (£89.10M General Fund [GF] and £49.51M Housing Revenue Account [HRA])

and the remainder to the refinancing of existing debt and externalising internal debt to cover the expected fall in balances and also the possible need to lock back into longer term debt prior to interest rises.

22. As short-term interest rates have remained low, and are likely to remain low at least over the forthcoming year it is more cost effective in the short-term to use internal resources rather than borrowing.

23. The benefits of this were monitored regularly against the potential for incurring additional costs by deferring borrowing into future years. Our advisors assist with this ‘cost of carry’ and breakeven analysis.

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

24. The council 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 council 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.

Debt Rescheduling

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

INVESTMENT ACTIVITY

26. Both the CIPFA and DCLG’s Investment Guidance requires the council to invest prudently and have regard to the security and liquidity of investments before seeking the optimum yield.

27. The council has held significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2017/18 the council’s investment balances have ranged between £64M and £80M. Movement in year is summarised in the table below:

28. ***Table 4: Investment activity during the year***

	Balance on 01/04/2017	Investments Repaid	New Investments	Balance on 31/03/2018	(Increase)/ Decrease in Investment for Year	Average Life / Average Rate % of Current Investments	
	£M	£M	£M	£M	£M	Life	%
Notice Account	(5)	10	(8)	(3)	2	79 days	0.70
Covered Bonds (secured)	(12)	6		(6)	6	1.27 years	1.39
Multi - National Bonds (not subject to bail in)	(4)	1		(3)	1	5.47 years	5.30
Corporate and Other Bonds (not subject to bail in)	(3)	3		0	3		
Money Market Funds and Call Account	(18)	380	(386)	(24)	(6)	1 day	0.43
Government & Local Authority	0		(10)	(10)	(10)	18 days	0.85
Pooled Funds (CCLA)	(17)		(10)	(27)	(10)	Unspecified	4.63
Total Investments	**(59)**	**400**	**(414)**	**(73)**	**(14)**		**3.98**

29. Security of capital has remained the council’s main investment objective. This has been maintained by following the Authority’s counterparty policy as set out in its TM Strategy Statement for 2017/18. The council 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 2018 by credit rating and confirms that all investments were made in line with the Council's approved credit rating criteria:

Table 5: Credit ratings of Investments held at 31st March 2018

	Long Term		Short Term	
Credit Rating	**31 March 2017 £M**	**31 March 2018 £M**	**31 March 2017 £M**	**31 March 2018 £M**
AAA	8.31	7.86	4.64	0.15
AA+	3.12		0.14	13.36
AA			0.06	6.91
AA-			8,28	11.20
A+			5.64	7.45
A			9.02	
A-			3.17	
Shares in unlisted companies	0.02	0.05		
Unrated pooled funds	16.65	27.03	0.14	0.29
Total Investments	**28.10**	**34.94**	**31.09**	**39.36**

Credit Developments and Credit Risk Management

32. In the first quarter of the financial year, UK bank credit default swaps (CDS) reached three-year lows on the announcement that the Funding for Lending Scheme, which gave banks access to cheaper funding, was being extended to 2018. For the rest of the year, CDS prices remained broadly flat.

33. The rules for UK banks' ring-fencing were finalised by the Prudential Regulation Authority and banks began the complex implementation process ahead of the statutory deadline of 1st January 2019. As there was some uncertainty surrounding which banking entities the Authority would will be dealing with once ring-fencing was implemented and what the balance sheets of the ring-fenced and non ring-fenced entities would actually look like, in May 2017 Arlingclose advised adjusting downwards the maturity limit for unsecured investments to a maximum of 6 months. The rating agencies had slightly varying views on the creditworthiness of the restructured entities. Barclays was the first to complete its ring-fence restructure over the 2018 Easter weekend; wholesale deposits including local authority deposits will

	henceforth be accepted by Barclays Bank plc (branded Barclays International), which is the non ring-fenced bank.
34.	**Money Market Fund regulation:** The new EU regulations for Money Market Funds (MMFs) were finally approved and published in July and existing funds will have to be compliant by no later than 21st January 2019. The key features include Low Volatility Net Asset Value (LVNAV) Money Market Funds which will be permitted to maintain a constant dealing NAV, providing they meet strict new criteria and minimum liquidity requirements. MMFs will not be prohibited from having an external fund rating (as had been suggested in draft regulations). Arlingclose expects most of the short-term MMFs it recommends to convert to the LVNAV structure and awaits confirmation from each fund.
35.	**Credit Rating developments:** the most significant change was the downgrade by Moody's to the UK sovereign rating in September from Aa1 to Aa2 which resulted in subsequent downgrades to sub-sovereign entities including local authorities. Changes to credit ratings included the placing of UK banks' long-term ratings on review to reflect the impending ring-fencing of retail activity from investment banking (Barclays, HSBC and RBS were on review for downgrade; Lloyds Bank, Bank of Scotland and National Westminster Bank were placed on review for upgrade). Standard & Poor's (S&P) revised upwards the outlook of various UK banks and building societies to positive or stable and simultaneously affirmed their long and short-term ratings, reflecting the institutions' resilience, progress in meeting regulatory capital requirements and being better positioned to deal with uncertainties and potential turbulence in the run-up to the UK's exit from the EU in March 2019. The agency upgraded Barclays Bank's long-term rating to A from A- after the bank announced its plans for its entities post ring-fencing. Fitch revised the outlook on Nationwide Building Society to negative and later downgraded the institution's long-term ratings due to its reducing buffer of junior debt. S&P revised the society's outlook from positive to stable.
36.	**Other developments:** In February, Arlingclose advised against lending to Northamptonshire County Council (NCC). NCC issued a section 114 notice in the light of severe financial challenge and the risk that it would not be in a position to deliver a balanced budget. In March, following Arlingclose's advice, the Authority removed RBS plc and National Westminster Bank from its counterparty list. This did not reflect any change to the creditworthiness of either bank, but a tightening in Arlingclose's recommended minimum credit rating criteria to A- from BBB+ for FY 2018-19. The current long-term ratings of RBS and NatWest do not meet this minimum criterion, although if following ring-fencing NatWest is upgraded, the bank would be reinstated on the Authority's lending list.
37.	**MiFID II:** As a result of the second Markets in Financial Instruments Directive (MiFID II), from 3rd January 2018 local authorities were automatically treated as retail clients but could "opt up" to professional client status, providing certain criteria was met which includes having an investment balance of at least £10 million and the person(s) authorised to make investment decisions on behalf of the authority have at least a year's relevant professional experience. In addition, the regulated financial services firms to whom this directive applies have had to assess that that person(s) have the expertise, experience and knowledge to make investment decisions and understand the

	risks involved. The Authority met the conditions to opt up to professional status and has done so in order to maintain its MiFID II status prior to January 2018. The Authority will continue to have access to products including money market funds, pooled funds, treasury bills, bonds, shares and to financial advice. It should be noted that local authorities' investments are not protected by the Financial Services Compensation Scheme nor are they eligible to complain to the Financial Ombudsman Service regardless of whether they are retail or professional clients.
38.	**Benchmarking:** Our 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 since 2015. Details can be seen in Appendix 3. It also shows that on average the return on our internal investments at 1.00 is higher than the average of 0.58 and our overall return including the LAPF fund is 2.66% as opposed to 1.40%.
Liquidity Management	
39.	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 fixed rate debt at 31 March 2018 can be seen in section 6 of Appendix 2.
Externally Managed Funds	
40.	The Council has invested £27M in property funds which offer the potential for enhanced returns over the longer term, but will 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.
41.	During 2017/18 this investment returned an average yield of 4.63% against the initial investment, but made a notional "gain" at year end of £0.03M being valued at £27.03M.
42.	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 is regularly reviewed. In light of their strong performance and the Authority's latest cash flow forecasts and income generation target, further investment in these funds is a possibility in the future.
COMPLIANCE WITH PRUDENTIAL INDICATORS	
43.	It can be confirmed that the Council has complied with its Prudential Indicators for 2017/18, approved by Full Council on 15 February 2017.
44.	In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary report of TM activity during 2017/18.

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 2.

45. ***Table 6: Key Prudential Indicators***

Indicator	Limit	Actual at 31 March 2018
Authorised Limit for external debt £M	£898M	£325M
Operational Limit for external debt £M	£647M	£325M
Maximum external borrowing in year		£269M
Limit of fixed interest debt %	100%	95%
Limit of variable interest debt %	50%	18%
Limit for Non-specified investments £M	£55M	£10M

OTHER ITEMS

Future Developments and Amendment to Prudential Indicators

46. **Local Authority Regulatory Changes**

Revised CIPFA Codes: CIPFA published revised editions of the Treasury Management and Prudential Codes in December 2017. The required changes from the 2011 Code are being incorporated into Treasury Management Strategies and monitoring reports. The 2017 Prudential Code introduces the requirement for a Capital Strategy which provides a high-level overview of the long-term context of capital expenditure and investment decisions and their associated risks and rewards along with an overview of how risk is managed for future financial sustainability. Where this strategy is produced and approved by full Council, the determination of the Treasury Management Strategy can be delegated to a committee. The Code also expands on the process and governance issues of capital expenditure and investment decisions in particular the need to prepare and publish a Capital Strategy, which we already do as part of the budget setting process.

In the 2017 Treasury Management Code the definition of 'investments' has been widened to include non-financial assets as well as financial assets. The non-financial assets are those held primarily for financial returns such as investment property. These, along with other investments made for non-treasury management purposes such as loans supporting service outcomes and investments in subsidiaries, must be discussed in the Capital Strategy or Investment Strategy. Additional risks of such investments are to be set out clearly and the impact on financial sustainability is be identified and reported.

47. **MHCLG Investment Guidance and Minimum Revenue Provision (MRP):** In February 2018 the MHCLG (Ministry of Housing, Communities and Local Government) published revised Guidance on Local Government and Investments and Statutory Guidance on Minimum Revenue Provision (MRP).

Changes to the Investment Guidance include a wider definition of investments to include non-financial assets held primarily for generating income return and a new category called "loans" (e.g. temporary transfer of cash to a third party, joint venture, subsidiary or associate). The Guidance introduces the concept of proportionality, proposes additional disclosure for borrowing solely to invest

	and also specifies additional indicators. Investment strategies must detail the extent to which service delivery objectives are reliant on investment income and a contingency plan should yields on investments fall. The definition of prudent MRP has been changed to "put aside revenue over time to cover the CFR"; it cannot be a negative charge and can only be zero if the CFR is nil or negative. Guidance on asset lives has been updated, applying to any calculation using asset lives. Any change in MRP policy cannot create an overpayment; the new policy must be applied to the outstanding CFR going forward only.
Investment Training	
48.	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 2017/18 staff attended training courses, seminars and conferences provided by our advisors (Arlingclose) and CIPFA.

RESOURCE IMPLICATIONS	
Capital/Revenue	
49.	This report is a requirement of the TM Strategy, which was approved at Council on 21 February 2018.
50.	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 £7.99M in 2017/18. 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.
51.	In addition interest earned on temporary balances invested externally is credited to the Income and Expenditure account. In 2017/18 £1.41M was earned which was higher than budgeted mainly due to continuing investment in bonds and LAPF as detailed in paragraphs 27 - 32 above.
52.	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 £0.29M in 2017/18 compared to an estimate of £0.19M. This increase was mainly due to a realignment of internal staff costs to accurately reflect the cost of the TM function. This is offset by 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	
53.	None.
LEGAL IMPLICATIONS	
Statutory power to undertake proposals in the report:	
54.	Local Authority borrowing is regulated by Part 1, of the Local Government Act 2003, which introduced the new Prudential Capital Finance System. From 1 April 2004, investments are dealt with, not in secondary legislation, but

	through guidance. Similarly, there is guidance on prudent investment practice, issued by the Secretary of State under Section 15(1)(a) of the 2003 Act. A local authority has the power to invest for "any purpose relevant to its functions under any enactment or for the purposes of the prudent management of its financial affairs". The reference to the "prudent management of its financial affairs" is included to cover investments, which are not directly linked to identifiable statutory functions but are simply made in the course of treasury management. This also allows the temporary investment of funds borrowed for the purpose of expenditure in the reasonably near future; however, the speculative procedure of borrowing purely in order to invest and make a return remains unlawful.
<u>Other Legal Implications</u>:	
55.	None.
RISK MANAGEMENT IMPLICATIONS	
56.	Not Applicable
POLICY FRAMEWORK IMPLICATIONS	
57.	This report has been prepared in accordance with the CIPFA Code of Practice on TM.

KEY DECISION?	~~Yes~~/No
WARDS/COMMUNITIES AFFECTED:	NONE
<u>SUPPORTING DOCUMENTATION</u>	
Appendices	
1.	2017/18 Economic Background
2.	Compliance with Prudential Indicators During 2017/18
3.	Southampton Benchmarking 31st March 2018
4.	Glossary of Treasury Terms
Documents In Members' Rooms	
1.	None.
Equality Impact Assessment	
Do the implications/subject of the report require an Equality and Safety Impact Assessments (ESIA) to be carried out.	~~Yes~~/No
Privacy Impact Assessment	
Do the implications/subject of the report require a Privacy Impact Assessment (PIA) to be carried out.	~~Yes~~/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.		
2.		