DECISION-MAKER:		GOVERNANCE COMMITTEE COUNCIL		
SUBJECT:		TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL LIMITS MID YEAR REVIEW		
DATE OF DECISION:		23 SEPTEMBER 2013 20 NOVEMBER 2013		
REPORT OF:		HEAD OF FINANCE AND IT (CHIEF FINANCIAL OFFICER)		
CONTACT DETAILS				
AUTHOR:	**Name:**	Alison Chard	**Tel:**	023 8083 4897
	E-mail:	Alison.Chard@southampton.gov.uk		
Director	**Name:**	Mark Heath	**Tel:**	023 8083 2371
	E-mail:	Mark.Heath@southampton.gov.uk		

STATEMENT OF CONFIDENTIALITY
There is a confidential appendix attached to this report, the confidentiality of which is based on Category 3 of paragraph 10.4 of the Council's Access to Information Procedure Rules. It is not in the public interest to disclose this because information relates to the financial affairs of the Authority.

BRIEF SUMMARY

The Council approved a number of indicators at its meeting of the 13 February 2013. Following the September update of the Capital Programme and an analysis of Treasury Management activity in 2012/13 and between April and August 2013, these indicators have been reviewed for 2013/14 and are reported in accordance with CIPFA's code of practice on Treasury Management, (the "CIPFA TM Code"), and in line with the approved Treasury Management Strategy (TMS).

The core elements of the 2013/14 strategy are :

- To make use of short term variable rate debt to take advantage of the continuing 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.

RECOMMENDATIONS:

GOVERNANCE COMMITTEE

i) To note the current and forecast position with regards to these indicators and endorse any changes.

ii) To note that the continued proactive approach to Treasury Management (TM) has led to reductions in borrowing costs and safeguarded investment income during the year.

iii) To note action taken in response to the down rating of the Authority's Bankers, (the Co-operative Bank), as set out in the Confidential Appendix to this report (Appendix 1).

COUNCIL

i) To approve any changes to the Council's Prudential Indicators as detailed within the report.

ii) Continue to delegate authority to the Chief Financial Officer, following consultation with the Cabinet Member for Resources to approve any changes to the Prudential Indicators or borrowing limits that will aid good treasury management. For example increase 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 this strategy.

iii) To note that the continued proactive approach to Treasury Management (TM) has led to reductions in borrowing costs and safeguarded investment income.

iv) To note Action taken in response to the down rating of the Authority's Bankers, (the Co-operative Bank), as set out in more detail in Confidential Appendix to this report (Appendix 1).

REASONS FOR REPORT RECOMMENDATIONS

1. The TM 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

2. No alternative options are relevant to this report

DETAIL (Including consultation carried out)

CONSULTATION

3. The capital programme update on which this report is based has been subject to its own consultation processes.

BACKGROUND

4. TM is a complex subject but in summary the core elements of the strategy for 2013/14 were:

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

5. In essence TM can always be seen in the context of the classic 'risk and reward' scenario and following this strategy will contribute to the Council's wider TM objective which is to minimise net borrowing cost short term without exposing the Council to undue risk either now or in the longer in the term.

6. Treasury management is defined as *"The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."*

7. 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 main risks to the Council's treasury activities are:

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

8. 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 treasury management transactions during 2013/14 to date, and
e) confirms compliance with treasury limits and Prudential Indicators.

DEBT MANAGEMENT

9. Activity within the debt portfolio to date is summarised below:

	Balance on 01/04/2013 £M	Debt Maturing or Repaid £M	New Borrowing £M	Balance as at 31/8/2013 £M	Increase/ (Decrease) in Borrowing for Year £M	Average Life / Average Rate % Life	%
Short Term Borrowing	34	(28)	0	6	(28)	5 Months	0.41
Long Term Borrowing	276	(4)	0	272	(4)	23.3 Years	3.31
Total Borrowing	**310**	**(32)**	**0**	**278**	**(32)**		*

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

	31-Mar-13 Actual £M	31-Mar-14 Approved £M	Current Portfolio £M	31-Mar-14 Current Estimate £M	31-Mar-15 Current Estimate £M	31-Mar-16 Current Estimate £M
External Borrowing:						
Fixed Rate – PWLB Maturity	139	156	139	163	184	199
Fixed Rate – PWLB EIP	93	90	89	115	100	85
Variable Rate – PWLB	35	60	35	35	35	35
Variable Rate – Market	9	9	9	9	9	9
Long Term Borrowing	**276**	**315**	**272**	**322**	**328**	**328**
Short Term Borrowing						
Fixed Rate – Market	34	50	6	50	50	50
Other Long Term Liabilities						
PFI / Finance leases	57	62	57	61	66	63
Deferred Debt Charges	17	17	17	17	16	16
Total Gross External Debt	384	444	352	450	460	457
Investments:						
Deposits and monies on call and Money Market Funds	(66)	(50)	(72)	(50)	(50)	(50)
Supranational bonds	(3)	(3)	(3)	(3)	(3)	(3)
Total Investments	(69)	(53)	(75)	(53)	(53)	(53)
Net Borrowing Position	**315**	**391**	**277**	**397**	**407**	**404**

<u>Public Works Loan Board (PWLB) Borrowing</u>

10. The PWLB remains the Council's preferred source of long term borrowing given the transparency, flexibility and control it offers.

<u>PWLB Certainty Rate</u>

11. The Council successfully qualified for borrowing at the 'Certainty Rate', following the submission of the Certainty Rate form to Central Government, which included details of the capital expenditure and borrowing plans for the Council over the next three years. PWLB borrowing from 1 November 2012 has been available at a 20bps reduction from the standard. In April the Council submitted its application to the Department for Communities and Local Government's (CLG) along with the

2013/14 Capital Estimates Return to access this reduced rate for a further 12 month period from 1 November 2013.

Loans at Variable Rates

12. The loan portfolio contains £35M of PWLB variable rate loans which currently have an average rate of 0.57% which mitigate the impact of changes in variable rates on the Council's overall treasury portfolio (the Council's investments are deemed to be variable rate investments due to their shorter-term nature). The Council's variable rate loans were borrowed prior to 20 October 2010, (the date of change to the PWLB's lending arrangements post the Comprehensive Spending Review), and are maintained on their initial terms and are not subject to the additional increased margin. The uncertain interest rate outlook further supported the case for maintaining variable rate debt. As the economy still appeared susceptible to economic shocks, growth remained insipid and official interest rates were forecast to remain low for much longer, the Council determined that exposure to variable rates was warranted. It also made sense from an affordability and budgetary perspective in the short to medium term. Any upward move in interest rates and interest paid on variable rate debt would be 'hedged' by a corresponding increase in interest earned on the Council's variable rate investments.

13. The interest rate risk associated with the Council's strategic exposure is regularly reviewed with our Treasury Advisors against clear reference points, this being a narrowing in the gap between short and longer term interest rates by 0.5%. When appropriate this exposure will be reduced by replacing the variable rate loans with fixed rate loans.

14. In achieving interest rate savings, the Council has exposed itself to variable interest rate risk and whilst in the current climate of low interest rates this is obviously a sound strategy, at some point when the market starts to move the Council will need to act quickly to lock into fixed long term rates which may be at similar levels to the debt it has restructured.

15. It was therefore recommended in the February 2009 Treasury Management Strategy report to Full Council that an Interest Equalisation Reserve be created from the savings arising from the switch to lower rate variable interest rate debt, and maintained at a prudent level to help to manage increases in the future and ensure that there is minimal impact on annual budget decisions. However, it should be noted that the sum set aside in the Interest Equalisation Reserve is a one off sum of money to help manage the initial transitional period when the council will convert its variable rate loan portfolio to longer term fixed rate debt. The actual ongoing recurring revenue impact of switching to fixed rate long term debt will still need to be factored in to the budget forecasts for future years. Based on the current predictions of lower for longer interest rate forecasts, it is unlikely that this pressure will emerge in the short term, but it is likely to become a reality towards the back end of the Council's current medium term forecast horizon. The funds set aside in Interest Equalisation Reserve will be reviewed as part of the budget setting process for the 2014/15 budget.

Internal Borrowing

16. 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. The differential

between the cost of new longer-term debt (4.36% average rate for a 20 year PWLB fixed rate maturity) and the return generated on the Council's temporary investment returns was significant (3.55%).

17. As at the 31 March 2013 the Council used £52M 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, submitted to Council on 18 September 2013, the Council is expected to borrow £79M between 2013/14 and 2015/16. Of this £38M relates to new capital spend (£42M HRA; GF repay £4M) 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.

18. However due to the continued and increased uncertainty in the markets and the expectations of interest rates staying lower for longer it may be appropriate to maintain the council use of internal resources for part or all of this amount; providing that balances can support it. No long term borrowing has been taken to date and is none is expected to be taken until the second half of the year and will be assessed in conjunction with the Council's treasury advisor.

INVESTMENT ACTIVITY

19. Security of capital remained the Council's main investment objective. This was maintained by following the Council's counterparty policy as set out in its TM Strategy Statement for 2013/14. This has restricted new investments to the following institutions:

- Other Local Authorities;
- AAA-rated Stable Net Asset Value Money Market Funds;
- Call Accounts, Certificate of Deposits (CDs) and term deposits with UK Banks and Building Societies systemically important to the UK banking system.
- Debt Management Office.

20. The table below summarises activity during the year:

	Balance on 01/04/2013 £M	Investments Repaid £M	New Investments £M	Balance as at 31/8/2013 £M	Increase/ (Decrease) in Investment for Year £M
Short Term Investments	26	(16)	15	25	(1)
Money Market Funds & Call Accounts	40	(204)	211	47	7
EIB Bonds	3	0	0	3	0
Long Term Investments	0	0	0	0	0
Total Investments	**69**	**(220)**	**226**	**75**	**6**

A break down of investments as at 31 August 2013 by credit rating and maturity profile can be seen in following table.

Current Rating	Initial Rating	Less than 1 Month £000's	1 - 3 Months £000's	3 - 6 Months £000's	6 - 9 Months £000's	9 - 12 Months £000's	Over 12 Months £000's	Total £000's
A	A	16,590	5,000	7,000	6,000	6,000		40,590
A+	A-	600						600
A+	A	5,330						5,330
A+	A+		1,000					1,000
A+	AA-	700						700
AA-	A+	50	0					50
AA-	AA-	19,808						19,808
AA-	AA	4,200						4,200
AA	AA-	140						140
AA+	AA+							0
AAA	AAA						3,036	3,036
		47,418	**6,000**	**7,000**	**6,000**	**6,000**	**3,036**	**75,454**

21. Counterparty credit quality is assessed and monitored with reference to: Credit Ratings (the Council's minimum long-term counterparty rating is A- (or equivalent) across rating agencies Fitch, S&P and Moody's); credit default swaps; GDP of the country in which the institution operates; the country's net debt as a percentage of GDP; sovereign support mechanisms /potential support from a well-resourced parent institution; share price.

Authority Banking Arrangements

22. As reported previously it is becoming more common for local authorities to bank with financial institutions that no longer meet their investment criteria (following downgrades of some banks credit rating). This is presently the case for the Council as current bank, the Co-Op, no longer meet our minimum credit rating of A-. It is a costly and complicated process to change bankers and we are under contract with the Co-operative Bank until October 2014. However following the recent down grading of the Co-operative Bank we have taken immediate action.

23. The action taken to date and other relevant issues are set out in the Confidential Appendix to this report (Appendix 1).

COMPLIANCE WITH PRUDENTIAL INDICATORS

24. All indicators to date complied with the Prudential Indicators approved by Council on 13 February 2013, item 100.

http://www.southampton.gov.uk/modernGov/ieListDocuments.aspx?CId=122&MId=2322&Ver=4

Details of the performance against key indicators and any proposed changes are shown below:

Capital Financing Requirement Gross and Actual External Debt

25. The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose. In order to ensure that over the medium term net borrowing will only be for a capital purpose, the Council ensures that net external borrowing does not, except in the short term, exceed the CFR in the preceding year, plus the estimates of any additional capital financing requirement for the current and next two financial years. It differs from actual borrowing due to

decisions taken to use internal balances and cash rather than borrow. The table below shows the actual position as at 31 March 2013 and the estimated position for the current and next two years based on the capital programme submitted to council on the 18 September 2013.

Capital Financing Requirement	2012/13 Actual £M	2013/14 Approved £M	2013/14 Forecast £M	2014/15 Revised Estimate £M	2015/16 Revised Estimate £M
Balance B/F	**445**	**437**	**433**	**442**	**448**
Capital expenditure financed from borrowing	11	14	30	23	8
Temporary Funding (Repayment)	(3)	(6)	(6)	(3)	0
HRA Debt	0	7	0	0	0
HRA Voluntary Repayment of Debt	(10)	0	(6)	(5)	(5)
Revenue provision for debt Redemption.	(8)	(13)	(6)	(6)	(7)
Movement in Other Long Term Liabilities	(2)	(2)	(3)	(3)	(3)
Cumulative Maximum External Borrowing Requirement	**433**	**437**	**442**	**448**	**441**

26. The Council reports that it has not borrowed in advance of need and that it has continued the use of internal resources in lieu of borrowing as this has been the most cost effective means of funding past capital expenditure to date. In the Prudential Code (November 2011), it states '*Where there is a significant difference between the net and gross borrowing position the risks and benefits associated with this strategy should be clearly stated in the annual strategy*'. The Council has had no difficulty in meeting this requirement so far in 2013/14, nor is there any difficulties envisaged for future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

	31/03/2013 Actual £M	31/03/2014 Approved £M	31/03/2014 Estimate £M	31/03/2015 Estimate £M	31/03/2016 Estimate £M
General Fund CFR	269	261	265	260	251
Housing CFR	164	176	177	188	190
CFR	**433**	**437**	**442**	**448**	**441**
Gross Long term Debt	350	394	400	410	407
Difference	**83**	**43**	**42**	**38**	**34**
Short Term Debt	34	50	50	50	50
Difference	**49**	**(7)**	**(8)**	**(12)**	**(16)**
Borrowing in excess of CFR? (Y/N)	**N**	**Y**	**Y**	**Y**	**Y**
Investments	**(69)**	**(53)**	**(53)**	**(53)**	**(53)**

**Please note that borrowing is only in excess of the CFR as it includes assumptions for short term borrowing for cash flow purposes.*

Authorised Limit and Operational Boundary for External Debt

27. The Local Government Act 2003 requires the Council to set an Affordable Borrowing Limit, irrespective of their indebted status. This is a statutory limit which should not be breached. The Council's ***Affordable / Authorised Borrowing Limit*** was set at £898M for 2013/14 (£817M for borrowing and £81M for other long term liabilities).

28. The ***Operational Boundary*** is based on the same estimates as the Authorised Limit but reflects the most likely, prudent but not worst case scenario without the additional headroom included within the Authorised Limit. The Operational Boundary for 2013/14 was set at £857M (£779M for borrowing and £78M for other long term liabilities).

29. The above limits are set to allow maximum flexibility within TM, for example a full debt restructure. Actual borrowing as detailed in paragraph 9 is significantly below this and reflects decisions taken to use internal balances and cash rather than to physically borrow and shows the position at a point in time. No new borrowing is expected to take place until the second half of the financial year.

30. The Chief Financial Officer (CFO) confirms that there were no breaches to the Authorised Limit and the Operational Boundary and during the period to the end of August 2013, borrowing at its peak was £310M (other long term liabilities £74M) and there is no proposal to change these limits at this time.

Upper Limits for Fixed and Variable Interest Rate Exposure

31. These 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 allows for the use of variable rate debt to offset exposure to changes in short-term rates on our portfolio of investments.

	Limits for 2013/14 %
Upper Limit for Fixed Rate Exposure	100
Compliance with Limits:	Yes
Upper Limit for Variable Rate Exposure	50
Compliance with Limits:	Yes

32. The Upper limit represents the maximum proportion of borrowing which is subject to variable rate interest and was set at 50%, although in practice it would be unusual for the exposure to exceed 25% based on past performance, the highest to date is 15.8%. The limit was set at a higher level to allow for a possible adverse cash flow position, leading to a need for increased borrowing on the temporary market and to take advantage of the low rates available through the PWLB for variable debt. There has been no adverse cash flow to date but it is proposed that the limit remain at 50%, to allow for flexibility in case of any slippage in expected capital receipts.

Total principal sums invested for periods longer than 364 days

33. This indicator allows the Council to manage the risk inherent in longer term

investments; the limit for 2013/14 was set at £50M. With the maximum maturity period for a number of banks being extended to 12 months, we reintroduced the rolling programme of yearly investments from November and currently have £20M invested at an average rate of 0.86%, although it should be noted that rates are falling and new deals are expected to be around 0.65% to 0.75%. Due to the falling rates enquires are being made via our Financial Advisors about the possibility of investing in Property funds for our core investments.

Maturity Structure of Fixed Rate Borrowing

34. This indicator highlights the existence of any large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates and is designed to protect against excessive exposures to interest rate changes in any one period.

	Lower Limit %	Upper Limit %	Actual Fixed Debt as at 31/8/2013 £M	Average Fixed Rate as at 31/8/2013 %	% of Fixed Rate as at 31/8/2013	Compliance with set Limits?
Under 12 months	0	45	7	0.95	3.15	Yes
12 months and within 24 months	0	45	0	0.00	0.00	Yes
24 months and within 5 years	0	50	0	0.00	0.00	Yes
5 years and within 10 years	0	75	88	3.23	37.56	Yes
10 years and within 15 years	0	75	0	0.00	0.00	Yes
15 years and within 20 years	0	75	0	0.00	0.00	Yes
20 years and within 25 years	0	75	0	0.00	0.00	Yes
25 years and within 30 years	0	75	5	4.65	2.14	Yes
30 years and within 35 years	0	75	10	4.65	4.27	Yes
35 years and within 40 years	0	75	42	3.99	17.93	Yes
40 years and within 45 years	0	75	51	3.62	21.61	Yes
45 years and within 50 years	0	75	31	3.56	13.34	Yes
50 years and above	0	100	0	0.00	0.00	Yes
			234	**3.32**	**100.00**	

Please note: the TM Code Guidance Notes (page 15) states: "The maturity of borrowing should be determined by reference to the earliest date on which the lender can require payment. If the lender has the right to increase the interest rate payable without limit, such as in a LOBO loan, this should be treated as a right to require payment".

For this indicator, the next option dates on the Council LOBO loans will therefore determine the maturity date of the loans.

Balances and Useable Reserves

35. Estimates of the Council's level of overall Balances and Useable Reserves for 2013/14 to 2015/16 are shown below. Forecasts for future years will be updated in light of development of both revenue and capital spending plans.

	2012/13 Actual £M	2013/14 Estimate £M	2014/15 Estimate £M	2015/16 Estimate £M
Balances and Reserves	76	42	36	33

Credit Risk

36. The Council confirms it considers security, liquidity and yield, in that order, when making investment decisions. Credit ratings remain an important element of assessing credit risk, but they are not the sole feature in the Council's assessment of counterparty credit risk. The Council also considers alternative assessments of credit strength, and information on corporate developments of and market sentiment towards counterparties. The following key tools are used to assess credit risk:

- Published credit ratings of the financial institution (minimum A- or equivalent) and its sovereign (minimum AA+ or equivalent for non-UK sovereigns);
- Sovereign support mechanisms;
- Credit default swaps (where quoted);
- Share prices (where available);
- Economic fundamentals, such as a country's net debt as a percentage of its GDP);
- Corporate developments, news, articles, markets sentiment and momentum;
- Corporate developments, news, articles, markets sentiment and momentum.

The Council can confirm that all investments were made in line with minimum credit rating criteria set in the 2013/14 TMSS.

Housing Revenue Account (HRA) Limit on Indebtedness

37. Local authorities are required to report the level of the HRA CFR compared to the level of debt which was imposed by the CLG of self-financing at the time of implementation. The following tables show this plus the movement in year.

HRA Summary of Borrowing	2012/13 Actual £m	2013/14 Approved £m	2013/14 Estimate £m	2014/15 Estimate £m	2015/16 Estimate £m
Brought Forward	174.2	168.8	163.8	176.823	187.8
Maturing Debt	(10.4)	(5.6)	(5.6)	(5.1)	(5.1)
New borrowing	0	12.5	18.574	16.086	7.299
Carried forward	**163.8**	**175.7**	**176.8**	**187.8**	**190.0**
HRA Debt Cap (as prescribed by CLG)	199.6	199.6	199.6	199.6	199.6
Headroom	**35.8**	**23.9**	**22.8**	**11.8**	**9.6**

Ratio of Financing Costs to Net Revenue Stream

38. 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 definition of financing costs is set out at paragraph 87 of the Prudential Code. The ratio is based on costs net of investment income. The increase in the HRA financing costs is due to the reform of HRA of council housing finance which took effect from 28 March 2012. During 2012/13 the HRA made a voluntary debt repayment of £10.4M, which has led to an

increase in the financing ratio for the year. This will result in lower borrowing costs for future years. The upper limit for this ratio is currently set at 10% for the General Fund to allow for known borrowing decision in the next two years and to allow for additional borrowing affecting major schemes.

Ratio of Financing Costs to Net Revenue Stream	2012/13 Actual %	2013/14 Approved %	2013/14 Forecast %	2014/15 Approved %	2015/16 Approved %
General Fund	6.14%	6.78%	6.33%	6.97%	7.24%
HRA	24.95%	17.51%	17.16%	16.18%	15.57%
Total	12.06%	10.43%	10.01%	10.20%	10.54%

SUMMARY

39. In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary report of the treasury management activity up to the 31 August 2013. As indicated in this report none of the Prudential Indicators have been breached and a prudent approach has been taking in relation to investment activity with priority being given to security and liquidity over yield

40. In addition to the CIPFA's requirement to produce a mid and year end report, each quarter as part of corporate monitoring a summary of Treasury Management activity is prepared. This is presented to Cabinet as part of the Quarterly Revenue Financial Monitoring report where a further update on the Co-operative will be submitted.

41. For further information please see the following links:

Treasury Management Strategy Statement for 2013 on 13 February 2013, item 100.
http://www.southampton.gov.uk/modernGov/ieListDocuments.aspx?CId=122&MId=2322&Ver=4

Treasury Management Outturn Report on 17th July 2013, item 13.
http://www.southampton.gov.uk/modernGov/ieListDocuments.aspx?CId=122&MId=2466&Ver=4

Quarterly Revenue Financial Monitoring report, item 8 (Appendix 12)

http://www.southampton.gov.uk/modernGov/ieListDocuments.aspx?CId=126&MId=2475&Ver=4

RESOURCE IMPLICATIONS

Capital / Revenue

42. The Capital implications were considered as part of the Capital Update report submitted to Council on the 18 September 2013.

43. The revenue 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

44. None

LEGAL IMPLICATIONS

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

45. 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>:

46. None

POLICY FRAMEWORK IMPLICATIONS

47. 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.	**Confidential**: Authority's Banking Arrangements
2.	Glossary of Treasury Terms

Documents In Members' Rooms

1.	None

Equality Impact Assessment

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

Other Background Documents

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

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

1.	TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL LIMITS 2013/14 to 2015/16 – Council 13 February 2013	
2.	REVIEW OF PRUDENTIAL LIMITS AND TREASURY MANAGEMENT OUTURN 2012/13 – Council 15 July 2013	
3.	QUARTERLY REVENUE FINANCIAL MONITORING REPORT– Cabinet 20 August 2013.	