DECISION-MAKER:		GOVERNANCE COMMITTEE COUNCIL		
SUBJECT:		REVIEW OF PRUDENTIAL LIMITS AND TREASURY MANAGEMENT OUTTURN 2012/13		
DATE OF DECISION:		15 JULY 2013 17 JULY 2013		
REPORT OF:		HEAD OF FINANCE & 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
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 2012/13 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 13 February 2013.

ii. Investment returns during 2012/13 continued to remain low as a result of low interest rates, returning £0.8M. However, the average rate achieved for fixed term deals (0.92%) exceeded the performance indicator of the average 7 day LIBID rate (0.49%), mainly due to the rolling programme of yearly investments which was reintroduced in November 2012 following recommendations from our Advisors.

iii. In order to continue to balance the impact of ongoing lower interest rates on investment income we continued the use of short term debt which is currently available at lower rates than long term debt due to the depressed market. As a result the average rate for repayment of debt, (the Consolidated Loans & Investment Account Rate – CLIA), at 3.35%, is lower than that budgeted for, but slightly higher than last year which is in line with reported strategy. The predictions based on all of the economic data are that this will continue for an extended period. However, it should be noted that the 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. A PWLB 25 year fixed rate maturity loan is currently around 4%.

iv. In achieving interest rate savings the Council has exposed itself 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. During 2013/14 the Council will continue to review the position and take action as necessary to lessen this risk through a balanced combination of:

- longer term fixed maturity loans,
- medium term Equal Instalment of Principle (EIP) loans which are currently cheaper than longer term fixed,
- longer term PWLB variable loans which have the option to be fixed at very short notice for a small fee, and
- variable rate investments to take advantage of increasing interest rates, mainly through the use of money market funds (MMF).

v. Net loan debt increased during 2012/13 from £304M to £315M as detailed in paragraph 12.

vi. The Council can confirm that it has complied with the Prudential Indicators approved by Full Council on 15 February 2012.

vii. Immediate action has been taken in response to the down rating of the Authority's Bankers, (the Co-operative Bank), as set out in paragraphs 33 to 36

RECOMMENDATIONS:

GOVERNANCE COMMITTEE

It is recommended that Governance Committee:

i) Notes the Treasury Management (TM) activities for 2012/13 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 immediate action taken in response to down rating of the Authority's Bankers, (the Co-operative Bank).

COUNCIL

It is recommended that Council:

i) Notes the Treasury Management (TM) activities for 2012/13 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 immediate action taken in response to down rating of the Authority's Bankers, (the Co-operative Bank).

REASONS FOR REPORT RECOMMENDATIONS

1. The reporting of the outturn position for 2012/13 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. Treasury Management (TM) is a complex subject but in summary the core elements of the strategy for 2012/13 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
6. 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.

7. 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."*

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.

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 2012/13, 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 2012/13.

BORROWING REQUIREMENT AND DEBT MANAGEMENT

PWLB Certainty Rate

11. The Certainty Rate was introduced by the PWLB in November 2012, allowing the authority to borrow at a reduction of 20 base points on the Standard Rate. Appendix 2 shows details of market rates during the financial year for specific dates plus the average, minimum and maximum rates quoted.

12. Activity within the debt portfolio is summarised below:

	Balance on 01/04/2012 £M	Debt Maturing or Repaid £M	New Borrowing £M	Balance as at 31/3/2013 £M	Increase/ (Decrease) in Borrowing £M
Short Term Borrowing	0	0	34	34	34
Long Term Borrowing	300	(24)	0	276	(24)
Total Borrowing	**300**	**(24)**	**34**	**310**	**10**

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

	31/03/2012 Actual £M	31/03/2013 Actual £M	31/03/2014 Current Estimate £M	31/03/2015 Current Estimate £M	31/03/2016 Current Estimate £M
External Borrowing:					
Fixed Rate – PWLB Maturity	149	139	152	170	179
Fixed Rate – PWLB EIP	107	93	115	100	85
Variable Rate – PWLB	35	35	35	35	35
Variable Rate – Market	9	9	9	9	9
Long Term Borrowing	300	276	311	314	308
Short Term Borrowing					
Fixed Rate – Market	0	34	50	50	50
Other Long Term Liabilities					
PFI / Finance leases	54	57	61	66	63
Deferred Debt Charges	18	17	17	16	16
Total Gross External Debt	372	384	439	446	437
Investments:					
Deposits and monies on call and Money Market Funds	(62)	(66)	(50)	(50)	(50)
Supranational bonds	(6)	(3)	(3)	(3)	(3)
Total Investments	(68)	(69)	(53)	(53)	(53)
Net Borrowing Position	**304**	**315**	**386**	**393**	**384**

13. The Council's underlying need to borrow as measured by the Capital Financing Requirement (CFR) as at 31/3/2013 was estimated at £437M in February 2013 when the strategy was last updated, (see Table 1, Appendix 3). The Council's actual CFR at the end of the year was £433M.

14. 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 raised £34M of new loans (including the replacement of maturing debt) from other Local Authorities through the short term market at an average rate of 0.36%.

Loans at Variable Rates

15. The loan portfolio contains £35M of PWLB variable rate loans which currently have an average rate of 0.55% 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.

16. 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.

17. 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.

18. 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 during which 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.

Internal Borrowing

19. 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 (3.86% average rate for a 20 year PWLB fixed rate maturity) and the return generated on the Council's temporary investment returns was significant (3%).

20. 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, approved by Council in February 2013, the Council is expected to borrow £74M between 2013/14 and 2015/16. Of this £21M relates to new capital spend 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.

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.

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

21. The 2011 revision to the CIPFA Treasury Management Code now requires the prudential indicator relating to Maturity of Fixed Rate Borrowing to reference the maturity of LOBO loans to the earliest date on which the lender can require payment, i.e. the next call date. All of our LOBOs are in their call period so are treated as due within the year for analysis purposes (see Table in paragraph 28). We do not however expect them to be called during the year, but if they were it is likely that they would be replaced by a PWLB loan.

INVESTMENT ACTIVITY

22. 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 2012/13. Investments during the year included:

- Deposits with the Debt Management Office
- Deposits with other Local Authorities
- Investments in AAA-rated Stable Net Asset Value Money Market Funds
- Call accounts and deposits with UK Banks and Building Societies
- Bonds issued by Multilateral Development Banks

23. The table below summarises activity during the year:

	Balance on 01/04/2012	Investments Repaid	New Investments	Balance as at 31/3/2013	Increase/ (Decrease) in Investment	Average Life / Average Rate %	
	£M	£M	£M	£M	£M	Life	%
Short Term Investments	10	(88)	104	26	16	7 Months	0.95%
Money Market Funds & Call Accounts	52	(329)	317	40	(12)	I Day	0.46%
EIB Bonds	6	(3)	0	3	(3)	9.5 Years	5.40%
Long Term Investments	0	0	0	0	0	0	0
Total Investments	**68**	**(420)**	**421**	**69**	**1**		

24. **Security / Credit Risk: The possibility that one party to a financial instrument will fail to meet their contractual obligations, causing a loss for the other party.** Counterparty credit quality was assessed and monitored with reference to credit ratings; credit default swaps; Gross Domestic Product (GDP) of the country in which the institution operates; the country's net debt as a percentage of GDP; any potential support mechanisms and share price. The minimum long-term counterparty credit rating determined for the 2012/13 treasury strategy was A-/A-/A3 across rating agencies Fitch, Standard & Poor's (S&P) and Moody's.

25. In June Moody's downgraded a swathe of banks with global capital market operations, including the UK banks on the Council's lending list (Barclays, HSBC, Royal Bank of Scotland/Natwest, Lloyds TSB Bank/Bank of Scotland, Santander UK plc), as well as several non UK banks, but none of the ratings fell below the Council's minimum A-/A3 credit rating threshold.

26. The table below summarises the nominal value of the Council’s investment portfolio at 31 March 2013, and confirms that all investments were made in line with the Council’s approved credit rating criteria:

Outstanding Investments as at 31 March 2013

Counterparty	Credit Rating Criteria Met When Investment Placed	Credit Rating Criteria Met on 31 March 2013	Under 1 Month	1-3 Months	3-6 Months	6-9 Months	9-12 Months	Over 12 Months	Total
	YES/NO	YES/NO	£'000's	£'000's	£'000's	£'000's	£'000's	£'000's	£'000's
UK									
Bank Deposits	YES	YES	27,073	5,000		4,000	3,000		**39,073**
Building Societies	YES	YES					3,000		**3,000**
Gov't & Local Authority Deposits	YES	YES							**0**
Money Market Funds	YES	YES	23,675						**23,675**
Bonds							0	3,036	**3,036**
Total Investments			**50,748**	**5,000**	**0**	**4,000**	**6,000**	**3,036**	**68,784**

27. As reported previously along with many other authorities the Council uses the Co-operative Bank as its banker which no longer meets the minimum credit criteria of A- (or equivalent) long term and is still subject to negative watch. More information about this and the immediate action taken in response to the down grade of the Co-operative Bank in order to limit the credit risk are set out in paragraphs 33 to 36.

28. **Liquidity: The possibility that a party will be unable to raise funds to meet the commitments associated with Financial Instruments.** In keeping with the DCLG’s Guidance on Investments, the Council maintained a sufficient level of liquidity through the use of Money Market Funds. 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 nominal value of the Council’s debt at 31 March 2013 was as follows:

Outstanding 01 April 2011	% of total debt portfolio	Outstanding 31 March 2012	% of total debt portfolio	Total borrowing	Outstanding 31 March 2013	% of total debt portfolio
£000's	**%**	**£000's**	**%**	**Source of Loan**	**£000's**	**%**
177,733	79	290,825	97	Public Works Loan Board	267,320	86
46,944	21	9,404	3	Other Financial Institutions	42,673	14
224,677	**100**	**300,229**	**100**		**309,993**	**100**
				Analysis of Loans by Maturity		
48,413	22	32,909	11	Less than 1 Year	55,178	18
18,121	8	12,505	4	Between 1 and 2 years	11,505	4
19,561	8	34,515	11	Between 2 and 5 years	34,515	11
64,582	29	81,453	28	Between 5 and 10 years	69,948	23
		0		Between 10 and 15 years	0	0
6,000	3	0	0	Between 20 and 25 years	0	0
10,000	4	10,000	3	Between 25 and 30 years	5,000	2
8,000	4	5,000	2	Between 30 and 35 years	10,000	3
25,000	11	25,000	8	Between 35 and 40 years	42,000	13
10,000	4	47,900	16	Between 40 and 45 years	50,600	16
15,000	7	50,947	17	Over 45 years	31,247	10
224,677	**100**	**300,229**	**100**		**309,993**	**100**

29. **Yield:** The Council sought to optimise returns commensurate with its objectives of security and liquidity. The UK Bank Rate was maintained at 0.5% since March 2009 and short-term money market rates have remained at very low levels. The Council's investment income for the year was £0.8M and new deposits for periods up to one year have been made at an average rate of 0.92%. This was mainly as a result of the reintroduction of the rolling programme of yearly deals which was restarted in November 2012 following advice from our Treasury Advisors.

COMPLIANCE WITH PRUDENTIAL INDICATORS

30. The Council can confirm that it has complied with its Prudential Indicators for 2012/13, approved by Full Council on 15 February 2012. The 2012/13 Treasury Strategy can be found as Item 72 on the Council Meetings Agenda found via the following web link:

http://www.southampton.gov.uk/modernGov/ieListDocuments.aspx?CId=122&MId=2031&Ver=4

These were subsequently revised as part of the Council's 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

31. In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary report of TM activity during 2012/13. 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. Details can be found in Appendix 3.

OTHER ITEMS

PWLB Project Rate

32. The 2012 Autumn Statement announced that the Government would make available a new concessionary PWLB rate to an infrastructure project nominated by each Local Enterprise Partnership LEP) in England, (excluding London), with total borrowing capped at £1.5 billion. The Government will provide a UK guarantee to allow the Mayor of London to borrow £1 billion at a new preferential rate to support the Northern Line Extension to Battersea.

    The March 2013 Budget announced details of the "project rate" which will enable English local authorities working with their LEP to access cheaper borrowing on up to £1.5 billion of investment.

    The "project rate" has been set at 40 basis points below the standard rate across all loan types and maturities and will be available to local authorities in England from 1 November 2013 to support strategic local capital investment projects. The Government is asking each LEP to work with the authorities in their area to agree which project should benefit from the cheaper borrowing support. This will give LEPs; in consultation with authorities, the power to prioritise the projects that best support shared local goals. The Government is now seeking business cases from LEPs; agreed with authorities, setting out borrowing requirements for their chosen local project.

Authority Banking Arrangements:

33. It is becoming common for local authorities to bank with financial institutions that do not meet their investment criteria but action can be taken to minimise any risk this may present. 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 immediately started discussions with Procurement about options and timescales regarding the tendering process with a view to precipitating this timeline.

34. We have also taken the following immediate action to mitigate our risk in the meantime:

    - **Pooling Arrangements –** It is common for local authorities to hold a number of accounts at the same bank and to group these together for overdraft limit and interest purposes under a netting-off or pooling arrangement. Under this arrangement, some accounts will have a substantial credit balance while others will have a large overdraft, but the total balance is kept close to zero. Procedures in place were such that staff who manage the TM activity on a daily basis traditionally aimed for the net closing daily balances across all our accounts to be close to our current 'free' overdraft limit of £50,000. However, Arlingclose advised that it is likely in the event of any insolvency/banking resolution procedure that this netting down may not apply and that we would need to repay our overdrawn accounts in full and credit balances could also be at risk (in part or in full).

As a consequence procedures have been changed so that at the start of each day any account that has a balance in excess of £5,000 will be cleared back to the general account to minimise credit balances and limit our exposure (i.e. we will “sweep” the accounts and action inter-account transfers).

- **Cleared and Ledger Balances –** Overdraft interest charges are calculated in reference to the “cleared balance” and traditionally staff who manage the TM activity on a daily basis aim for this balance to be close to our current ‘free’ overdraft limit of £50,000. However, the total sum of money held in the current account is the ledger balance which is normally higher than the cleared balance. Arlingclose have advised that in the event of insolvency or other banking resolution procedure the “ledger balance” at the date of failure represents our exposure. Therefore, we now use the “ledger balance” to calculate our position and inform the action required.
- **Intraday Exposure –** Arlingclose advice is that although any action by resolution authorities is likely to take place outside banking hours to prevent a disorderly impact on the UK banking system, it cannot be ruled out that a bank will halt operations during the business day. Therefore we aim to reduce our daylight exposure by making outgoing payments at the beginning of the day. In addition, where it is known in advance that a large receipt is expected, (for example, the first day of the month when council tax is collected), we now set up payments to leave the Council’s bank account at the commencement of business. Furthermore, arrangements have been made to change the automatic sweep on the pay-point account from weekly to daily, although the balance on this account will still be subject to timing differences.
- **Imprest Accounts –** We are undertaking a review of Imprest Accounts (which are held locally to manage small transactions) to ensure that the levels held are minimised.
- **Advice to Schools –** Advice has been sent to schools updating them on action that it is appropriate for them to take in respect of any locally held accounts.

35. These changes impact on the level of staff resource required to manage TM activity and will result in increased bank charges but this is seen as an acceptable trade off in light of the priority given to security. Staff resource is being redirected to TM activity and priorities have been reassessed in order that this can be managed within existing employee budgets. Additional bank charges are forecast to be in the region of £10,000 per annum and can be met from within the current TM estimates.

36. This action will minimise any credit risk but cannot eliminate it entirely. A progress report will be submitted to the Governance Committee in September

RESOURCE IMPLICATIONS

<u>Capital / Revenue</u>

37. The report is a requirement of the TM Strategy, which was approved at Council on 13 February 2013.

38. 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 £9.5M in 2012/13 compared with an approved estimate of £11.2M, a saving of £1.7M. This is mainly due to interest rates being lower than those estimated and the use of temporary borrowing in place of long term debt.

39. In addition interest earned on temporary balances invested externally is credited to the Income and Expenditure account. In 2012/13 £0.8M was earned against a budget of £0.4M, an increase of £0.4M and was mainly due to the use of Money Market Funds and call accounts which currently pay a higher rate than short term fixed rates and the reintroduction of the rolling yearly investment programme from November 2012.

40. 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 £123,000 in 2012/13 compared to an estimate of £165,000. This decrease was mainly due to deferring PWLB borrowing to 2013/14 resulting in a saving on commission paid in year.

Property/Other

41. None

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

42. 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:

43. None

POLICY FRAMEWORK IMPLICATIONS

44. 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.	2012/13 Economic Background
2.	Summary of Interest Rates Movement During 2012/13
3.	Compliance with Prudential Indicators During 2012/13
4.	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 http://www.southampton.gov.uk/modernGov/documents/s15581/TM%20Strategy%20RPT.pdf
2.	TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL LIMITS 2012/13 to 2014/15 – Council 15 February 2012 http://www.southampton.gov.uk/modernGov/documents/s7802/TM%20Strategy%20Report.pdf