DECISION-MAKER:	GOVERNANCE COMMITTEE COUNCIL
SUBJECT:	TREASURY MANAGEMENT SRATEGY AND PRUDENTIAL LIMITS MIDYEAR REVIEW 2015
DATE OF DECISION:	9 NOVEMBER 2015 18 NOVEMBER 2015
REPORT OF:	CHIEF FINANCIAL OFFICER

CONTACT DETAILS				
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STATEMENT OF CONFIDENTIALITY

NOT APPLICABLE

BRIEF SUMMARY

The purpose of this report is to inform the Governance Committee and Council of the Treasury Management activities and performance for 2015/16 against the approved Prudential Indicators for External Debt and Treasury Management and to approve any changes as a result of activity to date and updates to the capital programme.

The core elements of the 2015/16 strategy are :

- To continue to make use of short term variable rate debt to take advantage of the current market conditions of low interest rates.
- To constantly review longer term forecasts and to lock into longer term rates through a variety of instruments as appropriate during the year, in order to provide a balanced portfolio against interest rate risk.
- To secure the best short term rates for borrowing and investments consistent with maintaining flexibility and liquidity within the portfolio.
- To invest surplus funds prudently, the Council's priorities being:
    - Security of invested capital
    - Liquidity of invested capital
    - An optimum yield which is commensurate with security and liquidity.
- To approve borrowing limits that provide for debt restructuring opportunities and to pursue debt restructuring where appropriate and within the Council's risk boundaries.
- To approve the 2015 Minimum Revenue Provision (MRP) Statement

With overall annual expenditure in excess of £600M and an extensive capital

programme, the Council is required to actively manage its cash-flows on a daily basis. The requirement to invest or to borrow monies to finance capital programmes, and to cover daily operational needs is an integral part of daily cash and investment portfolio management.		
RECOMMENDATIONS:		
GOVERNANCE COMMITTEE **It is recommended that Governance Committee:**		
	i)	To note the current and forecast position with regards to these indicators and endorse any changes;
	ii)	Notes that the continued proactive approach to TM has led to reductions in borrowing costs and safeguarded investment income during the year.
	iii)	To note the revised MRP policy made under delegated authority of the Chief Financial Officer which benefit the authority as set out in paragraphs 52 to 55.
	iv)	To endorse the increase in the investment limits as detailed in paragraphs 35.
	v)	To note the position with regard to the Authority's Bond holding with Volkswagen Financial Services as detailed in paragraph 43.
	vi)	To note the current position regarding set up the Local Authority Bonds Agency Ltd now known as the Municipal Bonds Agency (MBA) plc as set out in paragraph 24-29.
COUNCIL **It is recommended that Council:**		
	i)	To note the current and forecast position with regards to these indicators and approve any changes;
	ii)	Notes that the continued proactive approach to TM has led to reductions in borrowing costs and safeguarded investment income during the year.
	iii)	To note the revised MRP policy made under delegated authority of the Chief Financial Officer which benefit the authority as set out in paragraphs 52 to 55.
	iv)	Continue to delegate authority to the Chief Financial Officer, Finance 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;
	v)	To approve the increase in the investment limits as detailed in paragraphs 35;
	vi)	To note the position with regard to the Authority's Bond holding

		with Volkswagen Financial Services as detailed in paragraph 43.
	vii)	To note the current position regarding set up the Local Authority Bonds Agency Ltd now known as the Municipal Bonds Agency (MBA) plc as set out in paragraph 24-29.
REASONS FOR REPORT RECOMMENDATIONS		
1.	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		
2.	No alternative options are relevant to this report.	
DETAIL (Including consultation carried out)		
	CONSULTATION	
3.	Not applicable.	
	BACKGROUND	
4.	The Local Government Act 2003 introduced a system for borrowing based largely on self-regulation by local authorities themselves. The basic principle of the new system is that local authorities will be free to borrow as long as their capital spending plans are affordable, prudent and sustainable.	
5.	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).	
6.	The Authority's Treasury Management Strategy for 2015/16 was approved by full Council on 11 February 2015 which can be accessed as Item 87 on the Council Meetings Agenda found via the following web link: http://www.southampton.gov.uk/modernGov/ieListDocuments.aspx?CId=122&MId=2469&Ver=4	
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 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.	
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 the outturn position on treasury management transactions in 2015/16 to date, and e) confirms compliance with treasury limits and Prudential Indicators.
9.	Appendix 1 summarises the Authority's financial adviser's (Arlingclose) assessment of the economic outlook and events in the context of which the Council operated its treasury function.
	BORROWING REQUIREMENT AND DEBT MANAGEMENT
10.	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. This was estimated at £445M as at the 31/03/2016 when the TM strategy was approved and has been increased to £465M following a revision of the capital programme and MRP Policy and adjusting for 2014/15 actual position.
11.	At 30/9/2015 the Authority held £247M of loans, a decrease of £6M on 31/3/2015, as part of its strategy for funding previous years' capital programmes, however the Authority expects to have to borrow up to £52M in 2015/16 to finance the current capital programme (£13M General Fund and £37M for HRA) and to replace maturing debt, which will increase long term borrowing by £40M as shown in table 1 below.
	Table 1

Long Term Borrowing	£M
Balance brought forward	252.7
New debt raised in year	51.8
Maturing debt	(11.5)
Estimated debt at 31 March 2016	**293.0**

12.	The Authority's chief objective when borrowing continues to be striking an appropriately prudent 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.
13.	Affordability and the "cost of carry" remained important influences on the Authority's borrowing strategy alongside the consideration that, for any borrowing undertaken ahead of need, the proceeds would have to be invested in the money markets at rates of interest significantly lower than the cost of borrowing. As short-term interest rates have remained, and are likely to remain at least over the forthcoming two years, lower than long-term

rates, the Authority determined it was more cost effective in the short-term to use internal resources and will look to borrow short-term loans instead.

14. The benefits of internal borrowing are monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise. Our advisors, Arlingclose, assists the Authority with this ‘cost of carry’ and breakeven analysis.

15. 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 and is shown in tables 2 and 3 below together with activity in the year.

Table 2

	31-Mar-15 Actual £M	31-Mar-16 Approved £M	Current Portfolio £M	31-Mar-16 Current Estimate £M	31-Mar-17 Current Estimate £M	31-Mar-18 Current Estimate £M
External Borrowing:						
Fixed Rate – PWLB Maturity	139	189	139	191	218	227
Fixed Rate – PWLB EIP	69	58	64	58	46	35
Variable Rate – PWLB	35	35	35	35	35	35
Variable Rate – Market	9	9	9	9	9	9
Long Term Borrowing	**252**	**291**	**247**	**293**	**308**	**306**
Short Term Borrowing						
Fixed Rate – Market	0	30	0	30	30	30
Other Long Term Liabilities						
PFI / Finance leases	67	65	65	65	62	60
Deferred Debt Charges	16	15	15	15	15	14
Total Gross External Debt	335	401	327	403	415	410
Investments:						
Managed In-House						
Deposits and monies on call and Money Market Funds	(55)	(25)	(37)	(25)	(25)	(25)
Financial Instruments	(32)	(40)	(57)	(60)	(50)	(50)
Managed Externally						
Pooled Funds	(5)	(7)	(7)	(7)	(7)	(7)
Total Investments	(92)	(72)	(101)	(92)	(82)	(82)
Net Borrowing Position	**243**	**329**	**226**	**311**	**333**	**328**

Table 3

	Balance on 01/04/2015 £M	Debt Maturing or Repaid £M	New Borrowing £M	Balance as at 30/9/2015 £M	Increase/ (Decrease) in Borrowing £M	Average Life / Average Rate % Life	%
Short Term Borrowing	0	0	0	0	0		
Long Term Borrowing	253	(6)	0	247	(6)	22 Years	3.33
Total Borrowing	**253**	**(6)**	**0**	**247**	**(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.

16. The Council’s underlying need to borrow (as measured by the CFR) was estimated at £444.6M for 2015/16 when the strategy was approved in

	February 2015. This has been revised upwards to £465.2M following the latest capital review and the implementation of the revised MRP policy as detailed in paragraphs 53 and 54. See Appendix 4, table 2 for details of the movement in in the CFR.
	PWLB Certainty Rate
17.	The PWLB remains the Council's preferred source of long term borrowing given the transparency and control that its facilities continue to provide. The Authority qualifies for borrowing at the 'Certainty Rate' (0.20% below the PWLB standard rate) for a 12 month period from 01/11/2014. In April the Authority submitted its application to Department of the Environment along with the 2015/16 Capital Estimates Return to access this reduced rate for a further 12 month period from 01/11/2015.
	Loans at Variable Rates
18.	Included within the debt portfolio is £35M of PWLB variable rate loans which are currently averaging a rate of 0.67% which mitigate the impact of changes in variable rates on the Authority's overall treasury portfolio (the Authority's cash 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.
	Lender's Option Borrower's Option Loans (LOBOs)
19.	The Authority holds £9M of LOBO loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. All of these LOBOS have options during the half year, none of which were exercised by the lender, but if they were to be called during the remainder of this financial year it is likely that they would be replaced by a PWLB loan.
	Internal Borrowing
20.	Given the significant cuts to local government funding putting pressure on Council finances, the strategy followed was to minimise debt interest payments without compromising the longer-term stability of the portfolio.
21.	As at the 31 March 2015 the Council used £92M 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. The current Capital Programme indicates that the Council is expected to borrow up to £77M between 2015/16 and 2017/18. Of this £54M relates to new capital spend (£3M GF and £51M HRA) and the remainder to the refinancing of existing debt and externalising internal debt to cover the expected fall in balances and also the need to lock back into longer term debt prior to interest rate rises.
22.	However as short-term interest rates have remained lower than long-term rates, and are likely to remain so for the forthcoming two years, the Authority has determined it is more cost effective in the short-term to continue the use

	of internal resources where funds permit.
	<u>Debt Rescheduling</u>
23.	The premium charge for early repayment of PWLB debt remained relatively expensive for the loans in the Authority's portfolio and therefore unattractive for debt rescheduling activity. No rescheduling activity was undertaken as a consequence.
	<u>UK Municipal Bonds Agency</u>
24.	In the February 2015 full budget report to Council paragraph 85 set out an alternative option to the PWLB for accessing borrowing; that alternative was via the Local Capital Finance Company Ltd (now called the UK Municipal Bond Agency (MBA) plc).
25.	The current model proposed by MBA is it will borrow money on the capital markets and all borrowing authorities will jointly and severally guarantee the borrowing (of all other local authorities). This will ensure the keenest price as possible, as effectively, should any single local authority fail to make its payments the shortfall, in the first instance, will be met from all other borrowing authorities.
26.	As local authority borrowing is by law secured as a first charge on the revenues of the authority, the likelihood of default is considered extremely low. In addition MBA proposes having various policies in place to limit its exposure to individual authorities.
	<u>Joint and Several Guarantee</u>
27.	The proposed guarantee is given to lenders to MBA, and MBA is the lender to local authorities, so MBA is the prime beneficiary of the statutory charge of borrowing on local authority revenues. To avoid the possibility of the guarantee actually being called (accepting this is very unlikely), MBA is putting in place "contribution" arrangements such that should a borrowing authority fail to make a payment, after allowing a short time of rectification, if the default is not immediately rectified, the remaining guaranteeing authorities will be advised and will shortly thereafter be required to make up the defaulting authority's contribution. Payments required under the contribution arrangement are pro rata to all borrowing from the MBA. This should ensure that given the "several" nature of the guarantee larger borrowing authorities can be assured that the guarantee (and contribution arrangement) cannot be applied in a way that means a single large authority is the sole guarantor to a small authority, and the "concentrate limits" that will be set out should ensure that in the (unlikely) event of a payment failure, a smaller authority's exposure is limited.
	<u>Update on Progress</u>
28.	A group of local authorities who are members of MBA have engaged Counsel to provide an opinion on the vires and the reasonableness of the joint and several guarantee. The purpose of seeking this advice is to ensure that before councils sign up to borrow from MBA it is absolutely clear they have the power to do so and understand the full implications around the guarantee.
	<u>SCC position</u>
29.	At the present time SCC has no plans to undertake borrowing via MBA. It

will, however, be important that we are cognisant of the outcome of Counsels review and that we advise Council accordingly prior to entering into any borrowing commitments. An update will provided once further information is available.

INVESTMENT ACTIVITY

30. Both the CIPFA and DCLG's Investment Guidance requires the authority to invest prudently and have regard to the security and liquidity of investments before seeking the optimum yield.

31. The Authority has held significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During the first half of 2015/16 the Authority's investment balances have ranged between £92M and £125M and are currently £101M. Projected balances indicate that on present levels of spend we should have similar balances to last year, but this will be dependent on any borrowing decisions taken.

32. Table 4 below summarises activity during the year:

Table 4

	Balance on 01/04/2015	Investments Repaid	New Investments	Balance as at 30/9/2015	Increase/ (Decrease) in Investment for Year	Average Life / Average Rate %	
	£M	£M	£M	£M	£M	Life	%
Short Term Investments	0	(5)	5	0	0		
Money Market Funds & Call Accounts	54	(215)	198	37	(17)	1 Day	0.53
Bonds	33	(5)	29	57	24	1.17 Years	1.23
Local Authority Property Fund	5	0	2	7	2	Unspecified	4.78
Total Investments	**92**	**(225)**	**234**	**101**	**9**		

33. Security of capital has remained the Authority's main investment objective. This has been maintained by following the Authority's counterparty policy as set out in its Treasury Management Strategy Statement for 2015/16.

34. Counterparty credit quality was assessed and monitored with reference to credit ratings; credit default swap prices, financial statements, information on potential government support and reports in the quality financial press.

35. Counterparty limits were set as part of the TM strategy when balances were expected to fall, however balances have remained around £100M and this has made it difficult at times to find suitable counterparties whilst maintaining a reasonable yield. It is therefore recommended that counterparty limits be increased in line with Appendix 3.

36. Given the increasing risk and continued low returns from short-term unsecured bank investments, and having estimated that £40M is available for longer-term investment, the Authority diversified further into more secure and/or higher yielding asset classes such as covered bonds (which are secured on the financial institutions' assets) and pooled funds which have the advantage of diversifying investment risks without the need to own and manage the underlying investments coupled with professional fund management.

37.	Tables 5 and 6 below summarises the Council's investment portfolio at 30 September 2015 and confirms that all investments were made in line with the Council's approved credit rating criteria:

Table 5

Credit Rating	Long Term £M	Short Term £M	Total £M
AAA	15.9	4.0	19.9
AA+	3.2	4.7	7.9
AA		0.1	0.1
AA-		18.8	18.8
A+		17.0	17.0
A		17.6	17.6
A-		11.4	11.4
BBB+		1.4	1.4
Unrated pooled funds		7.0	7.0
Total Investments	**19.1**	**82.0**	101.1

Table 6

	Current Investment £M	Average Yield/ Rate %	Forecast Return £'M
Specified Investments			
Cash	36.9	0.53	0.20
Short Term Fixed Deals	-	0.43	0.00
Corporate Bonds (not subject to Bail in)	36.5	0.86	0.21
Other Bonds	1.5	0.90	0.02
	74.9		**0.43**
Unspecified Investments			
Long term Bonds (not subject to Bail in)	19.2	1.69	0.32
CCLA	7.0	4.78	0.33
	26.2		**0.65**
Total Investment	**101.1**	**1.72**	**1.08**
Total Investment excluding CCLA	**94.1**	**1.23**	**0.75**

Full details of our investments (excluding CCLA) can be seen in Appendix 2

	Credit Developments and Credit Risk Management
38.	All three credit ratings agencies have reviewed their ratings in the six months to reflect the loss of government support for most financial institutions and the potential for varying loss given defaults as a result of new bail-in regimes in many countries. Despite reductions in government support many institutions have seen upgrades due to an improvement in their underlying strength and an assessment that that the level of loss given default is low.

39.	Fitch reviewed the credit ratings of multiple institutions in May. Most UK banks had their support rating revised from 1 (denoting an extremely high probability of support) to 5 (denoting external support cannot be relied upon). This resulted in the downgrade of the long-term ratings of Royal Bank of Scotland (RBS) to BBB+ from A, Deutsche Bank to A from A+, Bank Nederlandse Gemeeten to AA+ from AAA and ING to A from A+. JP Morgan Chase and the Lloyds Banking Group however both received one notch upgrades
40.	Moody's concluded its review in June and upgraded the long-term ratings of Close Brothers, Standard Chartered Bank, ING Bank, Goldman Sachs International, HSBC, RBS, Coventry Building Society, Leeds Building Society, Nationwide Building Society, Svenska Handelsbanken and Landesbank Hessen-Thueringen.
41.	S&P reviewed UK and German banks in June downgrading Barclays' long-term rating to A- from A, RBS to BBB+ from A- and Deutsche Bank to BBB+ from A. As a result of this the Authority has made the decision to temporarily suspend Deutsche Bank as a counterparty for new unsecured investments. S&P has also revised the outlook of the UK as a whole to negative from stable, citing concerns around a planned referendum on EU membership and its effect on the economy.
42.	At the end of July, the council's treasury advisors Arlingclose advised an extension of recommended durations for unsecured investments in certain UK and European institutions following improvements in the global economic situation and the receding threat of another Eurozone crisis. A similar extension was advised for some non-European banks in September, with the Danish Danske Bank being added as a new recommended counterparty and certain non-rated UK building societies also being extended.
43.	In September, Volkswagen was found to have been cheating emissions testing over several years in many of their diesel vehicles. The ongoing impact and fallout is still playing out and the full extent of the financial implications are yet to become clear. The ratings of the VW group were placed on Rating Watch Negative by Fitch, CreditWatch with negative implications by S&P and the outlook revised to negative by Moody's. Moody's also revised the outlook on VW Financial Services to negative. Our advisors recommended suspending VW (as a non-financial corporate bond counterparty) for new investments whilst the situation is monitored, but did not recommend selling off existing investments and taking a loss as although the press headlines for Volkswagen remain negative, the likelihood that VW will default is still very low and credit metrics have not deteriorated to drastic levels. The authority holds a £1.5M corporate bond with Volkswagen financial services which is due to mature in May 2016, this was recently valued and there has been little movement on the price of the bond; if we were to sell at this point there would be an approximate loss of £17K, demonstrating that there is still confidence in the market.
	Liquidity Management
44.	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.
45.	Both Santander and HSBC have reduced the interest payable on their call accounts to 0.30% from 0.80%, but have introduced notice accounts offering higher interest, dependent on the period of notice. We are currently in the process of opening a notice account with Santander which offers rates from 0.65% for 31 days up to 1.15% for 180 days' notice, these will require more careful monitoring of cash flows to ensure we have sufficient liquidity.
	Externally Managed Funds
46.	On the 30 April 2014 the Council invested £5M in property funds which offer the potential for enhanced returns over the longer term, but may be more volatile in the shorter term. These funds are managed by professional fund managers which allows the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. This investment returned £0.24M in 2014/15 at a published yield of 4.86% and the net asset value of the fund at 31st March was £5.3M a notional "gain" of £0.3M against initial investment. Whilst recognising the increased risk (as the value of the fund can also go down) due to the strong performance to date an additional £2M was invested on 30 April 2015, as at the 31 September the sell price of our total investments were valued at £7.35M a notional "gain" of £0.35M against investments. The current quoted dividend yield on the fund is 4.78% and is expected to return £0.331M for the year.
	BUDGETED INCOME AND EXPENDITURE
	<u>Investments</u>
47.	The Council does not expect any losses from non-performance in relation to its investments by any of its counterparties. The UK Bank Rate has been maintained at 0.5% since March 2009 and as a consequence short-term money market rates have remained at relatively low levels with deposits being made at an average rate of 1.72%. Average cash balances were £109.8M during the period April to September; these are expected to decline towards the end of the financial year as the incidence of government grant income and council tax income is skewed towards the earlier part of the year.
48.	The Authority's budgeted investment income for the year was estimated at £0.6M, the Authority currently anticipates an investment outturn of £1.1M for the year based on current and committed deals. This reflects the movement away from short term cash investments to longer dated investments which yield a higher return, whilst still retaining credit quality.

	Expenditure
49.	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 in 2015/16 of financing the Authority's loan debt is currently expected to be £9.2M compared with an approved estimate of £11.0M, a saving of £1.8M, of which £0.9M relates to the HRA. This is mainly due to variable interest rates being lower than those estimated, no new long term borrowing being taken in 2014/15, slippage on the HRA capital programme to 2015/16 and deferring any new borrowing to later in the year.
	COMPLIANCE WITH PRUDENTIAL INDICATORS
50.	The Council can confirm that it has complied with its Prudential Indicators for 2015/16, approved by Full Council on 11 February 2015, item 87. http://www.southampton.gov.uk/modernGov/ieListDocuments.aspx?CId=122&MId=2469&Ver=4
51.	In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary report of TM activity during 2015/16 to date. None of the Prudential Indicators have been breached and a prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield. Table 7 below summarises the Key Indicators and performance to date further details can be found in Appendix 4.

Table 7

Indicator	Limit	Actual at 30 September 2015
Authorised Limit for external debt £M	£727M	£327M
Operational Limit for external debt £M	£553M	£327M
Maximum external borrowing in year		£253M
Limit of fixed interest debt %	100%	82.2%
Limit of variable interest debt %	50%	17.8%
Limit for Non-specified investments £M	£50M	£28.2M

	OTHER ITEMS
	Minimum Revenue Provision (MRP)
52.	The CLG Guidance requires the Authority to approve an Annual MRP Statement each year, and recommends a number of options for calculating a prudent amount of MRP, the Council's strategy was approved as part of the 2015/16 report. However following a review of the guidance the Council has revised this in order to achieve revenue savings whilst still providing a prudent provision.
53.	We will continue to apply set aside capital receipts to reduce the level of MRP which the council needs to set aside from revenue as a prudent provision, as detailed in paragraphs 45 to 48 in the Review of Prudential

Limits and Treasury Management Outturn report submitted to Council on 15 July, item 37
http://www.southampton.gov.uk/modernGov/ieListDocuments.aspx?CId=122&MId=3044&Ver=4

54. We intend to apply the annuity method of calculating MRP for Prudential Borrowing in place of asset life, and to reduce the percentage applied to borrowing taken before the Prudential regime from 4% to 2%.

55. The revised position is shown in table 8 below:

Table 8

	31/03/2015 Estimated CFR £M	2015/16 Estimate MRP £M	31/03/2015 Actual CFR £M	2015/16 Revised MRP £M
Capital expenditure before 01.04.2008	95.6	2.95	95.6	1.47
Unsupported capital expenditure after 31.03.2008	87.8	3.36	96.1	3.01
Transferred debt	15.6	0.63	15.6	0.63
Finance leases and Private Finance Initiative	66.8	2.05	66.8	2.06
Total General Fund	**265.8**	**8.99**	**274.1**	**7.17**
Assets in the Housing Revenue Account	104.9	Nil	100.9	Nil
HRA subsidy reform payment	52.6	4.9	52.6	5.1
Total Housing Revenue Account	**157.5**	**4.9**		
Total	**423.3**	**13.89**	**427.6**	**12.27**

Investment Training

56. 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. Staff have attended a number of training courses provided by our advisors (Arlingclose).

57. In January 2015 a training session was held by our advisors and made available to all Members to provide an insight into the current issues affecting TM and the basis of the TM strategy being presented. Following a number of changes to members since the elections in May further training is to be held in November 2015.

RESOURCE IMPLICATIONS

Capital/Revenue

58.	The revenue and capital implications are considered as part of ongoing monitoring which is reported to Cabinet each quarter and as part of the budget setting process.
Property/Other	
59.	None
LEGAL IMPLICATIONS	
Statutory power to undertake proposals in the report:	
60.	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:	
61.	None
POLICY FRAMEWORK IMPLICATIONS	
62.	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.	Economic Background	
2.	Current Investments	
3.	Revised Counterparty Limits	
4.	Compliance with Prudential Indicators	
5.	Glossary of Treasury Terms	
Documents In Members' Rooms		
1.	None	
Equality Impact Assessment		
Do the implications/subject of the report require an Equality Impact Assessment (EIA) to be carried out.		**No**
Privacy Impact Assessment		
Do the implications/subject of the report require a Privacy Impact Assessment (PIA) to be carried out.		**No**
Other Background Documents **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 2015/16 to 2017/18 .doc	