ITEM NO	

REPORT TO EXECUTIVE

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DATE	**25th June 2013**
PORTFOLIO	**Resources & Performance Management**
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Annual Treasury Management Report
Review of 2012/13 Activity

PURPOSE

1. To inform members of the Council's treasury management activity during 2012/13.

RECOMMENDATION

2.
- That the Executive note the annual treasury management activity for the year ended 31 March 2013; and
- That the Executive recommend Full Council to approve the actual 2012/13 prudential and treasury indicators detailed within this report.

REASONS FOR RECOMMENDATION

3. To comply with the regulations issued under the Local Government Act 2003 to produce an annual treasury report reviewing treasury management activities and the actual prudential and treasury indicators for 2012/13. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

During 2012/13 the minimum reporting requirements were that the full Council should receive the following reports:

- an annual treasury strategy in advance of the year (Council 23/02/12)
- a mid-year (minimum) treasury update report (Council 25/10/12)
- an annual review following the end of the year describing the activity compared to the strategy (this report)

In addition, the Executive have received quarterly treasury management update reports on 21/08/12 and 15/01/13

The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is therefore important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

SUMMARY OF KEY POINTS

4. **The Economy & Interest Rates**

The financial year 2012/13 continued the challenging investment environment of previous years, namely low investment returns and continuing heightened levels of counterparty risk. The UK coalition Government maintained its tight fiscal policy stance against a background of warnings from two credit rating agencies that the UK could lose its AAA credit rating which it recently has. Bank Rate ended the year unchanged at 0.5% while CPI inflation fell from 3% at the start of the year to end at 2.8% in March, with the expected timing of the fall back to below 2% being pushed back to quarter 1 2016.

5. **Overall Treasury Position as at 31 March 2013**

The Council's debt and investment position is organised by finance staff in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through Member reporting detailed in the summary, and through officer activity detailed in the Council's Treasury Management Practices.

6. **Council's treasury position**:

£m	31 March 2012 Actual	31 March 2013 Actual
Total debt	22.0	19.9
Capital Financing Requirement	28.1	27.5
Over / (under) borrowing	(6.1)	(7.6)
Total investments	8.9	7.1
Net debt	13.1	12.8

7. **The maturity structure of the debt portfolio:**

£m	31 March 2012 Actual	31 March 2013 Estimated	31 March 2013 Actual
Under 12 months	3.1	1.0	1.0
12 months and within 24 months	1.0	2.1	2.1
24 months and within 5 years	5.1	4.0	4.0
5 years and within 10 years	6.6	8.7	6.7
10 years and above	6.2	7.1	6.1
Totals	**22.0**	**22.9**	**19.9**

8. **The Strategy for 2012/13**

The expectation for interest rates within the strategy for 2012/13 anticipated low but rising

Bank Rate (starting in quarter 4 of 2014) with similar gradual rises in medium and longer term fixed borrowing rates over 2012/13. Variable or short-term rates were expected to be the cheaper form of borrowing over the period. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to be dominated by counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

In this scenario, the treasury strategy was to postpone borrowing to avoid the cost of holding higher levels of investments and to reduce counterparty risk.

9. The Borrowing Requirement and Debt

The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR).

Net borrowing and the CFR - in order to ensure that borrowing levels are prudent over the medium term the Council's external borrowing, net of investments, must only be for a capital purpose. This essentially means that the Council is not borrowing to support revenue expenditure. The table below highlights the Council's net borrowing position against the CFR.

£m	31 March 2012 Actual	31 March 2013 Estimated	31 March 2013 Actual
Net borrowing position	22.0	22.9	19.9
CFR	28.1	28.3	27.5

The authorised limit - the authorised limit is the "affordable borrowing limit" required by S3 of the Local Government Act 2003. The Council does not have the power to borrow above this level. The table below demonstrates that during 2012/13 the Council has maintained gross borrowing within its authorised limit.

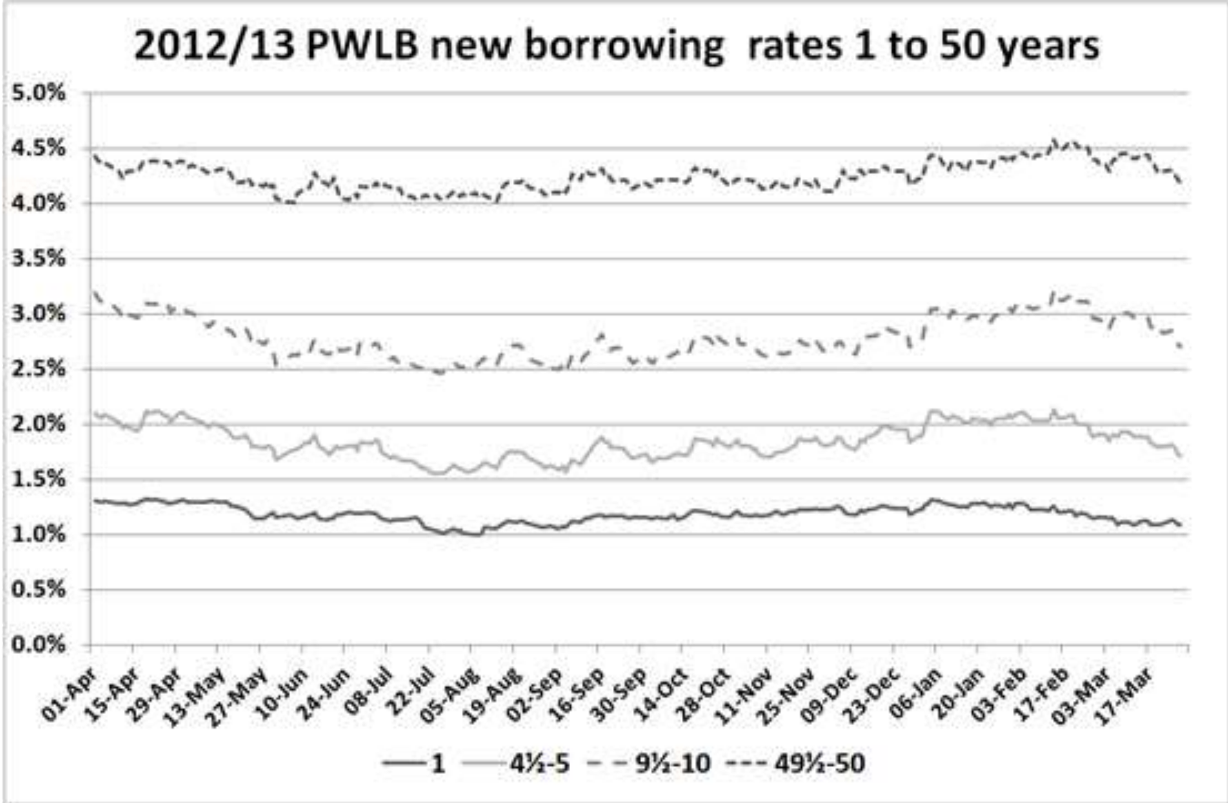
The operational boundary – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached.

Financing costs as a proportion of net revenue stream - this indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

£m	2012/13
Authorised limit	34.2
Maximum gross borrowing position	23.0
Operational boundary	31.1
Average gross borrowing position	21.0
Financing costs as a proportion of net revenue stream	12.0%

10. Borrowing Rates in 2012/13

PWLB borrowing rates - the graph below shows how PWLB rates remained close to historically very low levels during the year.



11. **<u>Borrowing Outturn for 2012/13</u>**

Borrowing – the following loans were taken during the year:

Lender	Principal	Type	Interest Rate	Maturity
PWLB	£1m	Maturity	3.55%	15 years

Repayments – The following loans were repaid during the year, as scheduled:

Lender	Principal	Type	Interest Rate	Duration
PWLB	£1m	Maturity	2.05%	3 years
PWLB	£2m	Maturity	4.80%	9 years
PWLB	£37k	Maturity	7.25%	16 years

12. **<u>Investment Rates in 2012/13</u>**

Bank Rate remained at its historic low of 0.5% throughout the year; it has now remained unchanged for four years. Market expectations of the start of monetary tightening and increased rates were pushed back during the year to early 2015 at the earliest. The Government's Funding for Lending Scheme resulted in a sharp fall in deposit rates in the second half of the year.

<u>Investment Outturn for 2012/13</u>

Investment Policy – the Council's investment policy is governed by CLG guidance, which was been implemented in the annual investment strategy approved by the Council on 23rd February 2012. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies supplemented by additional market data.

Investments held by the Council - the Council maintained an average balance of £12.3m of internally managed funds. The internally managed funds earned an average rate of return of 1.03% which exceeded the target of base rate (0.5%).

There was a total of 94 market investments made during the financial year, totalling £95.1m, as well as a total of £33.6m being invested within HSBC's "sweep" deposit account which was set up in November following negotiations with the bank manager. This account earns 0.5% which is the current base rate.

Appendix 1 shows the maximum amount invested with any of the counterparties at any one time during the period April 2012 to the end of March 2013. The maximum limit per counterparty is shown in brackets and it is confirmed that these were not exceeded.

13. **Icelandic Bank Defaults**

An amount of £1m was deposited by the Council in September 2008 in an Icelandic bank, Landsbanki Islands HF. As a consequence of the collapse of the Icelandic banking system, this short term deposit was not repaid on the due date of 8th October 2008.

It is estimated that 100% of the £1m deposit will be recovered along with interest. Payments have been received to date of £300,452 in February 2012, £122,743 in May 2012 and £58,623 in October 2012, with the last of a series of repayments due in December 2019.

The Statement of Accounts shows that at the 31st March 2013, the outstanding principal deposit is £420,728.

14. **Interest payable on External Borrowing / Interest Receivable on Investments**

Provision is made in the revenue budget to meet the net interest payable on external borrowing. The figure in the original budget for 2012/2013 was set at £1,031,718.

This budget was revised to a final position of £825,878 as a result of reducing the budget requirement for PWLB interest accrued, reducing External Temporary Loans and increasing the estimated interest receivable on external deposits. The outturn position was £826,205.

The total interest receivable on temporary investments in 2012/13 amounted to £126,311 compared with a revised budget for the year of £122,000.

FINANCIAL IMPLICATIONS AND BUDGET PROVISION

15. None arising as a direct result of this report.

POLICY IMPLICATIONS

16. All transactions are in accordance with the Council's approved Treasury Policy Statement

DETAILS OF CONSULTATION

17. None.

BACKGROUND PAPERS

18. None.

FURTHER INFORMATION PLEASE CONTACT:	**David Donlan** **Accountancy Division Manager**