ANNEX A

TREASURY MANAGEMENT ANNUAL REPORT 2013/14

1 INTRODUCTION

1.1 The annual treasury report is a requirement of the Council's reporting procedures and covers the treasury activity during 2013/14. The report meets the requirements of both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities. The Council is required to comply with both Codes through regulations issued under the Local Government Act 2003.

1.2 The report covers

The current treasury position
Capital Expenditure and Financing 2013/14
The Strategy for 2013/14
The Economy in 2013/14
The investment outturn for 2013/14
Compliance with Treasury Limits

2 SUPPORTING INFORMATION

Current Treasury Position

2.1 Average investments for the year amounted to £48.5m and the investment position at the end of the year was as follows.

Table 1 – Investment Position 31/03/13 to 31/03/14

Investment position	At 31 March 2013		At 31 March 2014	
	Principal	Average Rate	Principal	Average Rate
Fixed Interest Investments	£17.50m	1.15%	£27.00m	0.61%
Variable Interest Investments	£12.27m	0.45%	£20.86m	0.37%
Total Investments	**£29.77m**	**0.86%**	**£47.86m**	**0.53%**
Net borrowing position	**£0.00m**		**£0.00m**	

Annexe B

Capital Expenditure and Financing

2.2 The Council undertakes capital expenditure on long term assets. These activities may either be funded immediately through capital receipts or capital grants etc, or if insufficient financing is available financed through borrowing. The actual capital expenditure forms one of the required prudential indicators and the table below shows how this was financed in 2013/14. The Council's underlying need to borrow is called the Capital Financing Requirement (CFR). The CFR is simply the total outstanding capital expenditure which has not yet been paid for from either revenue or capital resources, and is shown below in Table 2.

Table 2 Financing of Capital Programme 2013/14

	£'000
Expenditure	
Capital Programme	24,027
Total	**24,027**
Financed by	
Capital Receipts	4,545
Government Grants/Contributions	11,373
S106 Contributions	2,128
Direct Revenue Contribution	1,100
Capital Financing Requirement	4,881
Total	**24,027**

The Strategy for 2013/14

2.3 At the time of publication of the 2013/14 Treasury Management Strategy Statement (TMSS) growth in the UK economy was expected to be weak and whilst the risk of falling back into recession were minimal, economists were wary that that the risks were certainly to the downside. The UK Bank Rate was forecast to remain unmoved through to late 2014 with little opportunity to return to what would have been considered normal investment conditions where investment maturities could be extended beyond the current cautious limits of 3 months.

The Economy in 2013/14

2.4 The financial year 2013/14 continued the challenging investment environment of previous years, namely low investment returns, although levels of counterparty risk had subsided somewhat. The original expectation for 2013/14 was that Bank Rate would not rise during the year and for it only to start gently rising from quarter 1 2015. This forecast rise has now been pushed back to a start in quarter 3 2015. Economic growth (GDP) in the UK was virtually flat during 2012/13 but surged strongly during the year. Consequently there was no additional quantitative easing during 2013/14 and Bank Rate ended the year unchanged at 0.5% for the fifth successive year. While CPI inflation had remained stubbornly high and substantially above the 2% target during 2012, by January 2014 it had, at last, fallen below the target rate to 1.9% and then fell further to 1.7% in February. It is also expected to remain slightly below the target rate for most of the two years ahead.

2.5 The UK coalition Government maintained its tight fiscal policy stance but recent strong economic growth has led to a cumulative, (in the Autumn Statement and the March Budget), reduction in the forecasts for total borrowing, of £97bn over the next five years, culminating in a £5bn surplus in 2018-19.

2.6 The EU sovereign debt crisis subsided during the year and confidence in the ability of the Eurozone to remain intact increased substantially. Perceptions of counterparty risk improved after the ECB statement in July 2012 that it would do "whatever it takes" to support struggling Eurozone countries; this led to a return of confidence in its banking system which has continued into 2013/14 and led to a move away from only very short term investing. However, this is not to say that the problems of the Eurozone, or its banks, have ended as the zone faces the likelihood of weak growth over the next few years at a time when the total size of government debt for some nations is likely to continue rising. Upcoming stress tests of Eurozone banks could also reveal some areas of concern.

Icelandic Deposits

2.7 The U.K. Government, Local Government Association, administrators and other agencies have continued to work throughout 2013/14 in recovering assets and co-ordinating repayments to all UK councils with Icelandic investments.

2.8 In the case of Heritable Bank plc, a significant repayment was made in August 2013, bringing the total repayments to approximately 94%. This is expected to be the last payment, although the final position has yet to be confirmed.

2.9 The recovery of the remaining balances relating to Glitnir, which is held in an escrow account has been complicated by current Icelandic legislation covering currency transactions. Approximately 80% of the Council's deposit was paid to the Council in a basket of currencies on the 14th March 2012 leaving an outstanding balance of 116,387,685Kr (£450,000 approx) which the bank is currently holding in an escrow account. The Council continues to work alongside the LGA to facilitate the recovery of these monies as efficiently and effectively as possible. The final value of this amount is uncertain given the currency controls and the weakness of the Icelandic currency at present. As such whilst the Council expects to receive 100% of its deposit back from Glitnir, the final Sterling value is as yet unclear.

Investment Outturn

2.10 The financial year 2013/14 continued the challenging investment environment of previous years, namely low investment returns with the expectation for the Bank Rate remaining at 0.5% being met and investments having to be lengthened out to 6 months to earn a return close to this rate.

2.11 The Council's investment policy is governed by CLG guidance, which was implemented in the annual investment strategy approved by the Council on 27th February 2013. 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 (such as rating outlooks, credit default swaps, bank share prices etc.). No changes were made to the counterparty criteria for 2013/14. The investment activity during the year conformed to the approved strategy.

2.12 The average rate on investments was 0.58% on an average balance of £48.5m, representing a 23 basis points out-performance on the 7-Day LIBID benchmark (0.35%).

2.13 The outturn for net investment income is £605,000 (see table 3), an increase in income of £142,000 on the original budget. Cash balances remained stronger than anticipated throughout the year and were bolstered through additional capital grants from central government and the under-spend on the Council's overall budget. Maximum use was made of the opportunity to make a pre-payment to the Pension Fund enabling the Council to benefit from a pre-payment premium of £293,000 which is incorporated into the investment income (Other Interest) figure below.

Table 3 – Investment Income

	Budget £'000	Actual £'000
Investment Income		
Gross Interest	-176	-282
Other Interest	-367	-406
Total Interest	**-543**	**-688**
Expenditure		
Interest Payments - Other	10	7
Fees & Charges	70	76
Total Expenditure	**80**	**83**
Net Interest	**-463**	**-605**

Fees and Charges include costs related to banking charges, software licences and professional support and advice.

Compliance with Treasury Limits

2.14 During the financial year the Council operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Policy Statement and annual Treasury Strategy Statement.

2.15 The Council's underlying need to borrow is called the Capital Financing Requirement (CFR). The CFR is simply the total outstanding capital expenditure which has not yet been paid for from either revenue or capital resources This includes PFI and finance lease schemes on the balance sheet, which increases the Council's borrowing need however no borrowing is actually required against these schemes as a borrowing facility is included in the contract.

2.16 As noted above the Council did not enter into any external borrowing and as such these limits are illustrative of the underlying need to borrow and do not reflect the actual position faced by the Council.

Table 5 – Capital Financing Requirement

	31 March 2014 Original Indicator (£m)	31 March 2014 Actual Indicator (£m)
Opening balance	**50,405**	**46,184**
Add unfinanced capital expenditure	6,620	4,881
Less PFI & finance lease repayments	-289	-289
Less MRP	-1,323	-1,283
Closing balance	**55,413**	**49,493**

Annexe B

2.17 The outturn for the remaining Prudential Indicators are as follows

THE PRUDENTIAL CODE FOR CAPITAL FINANCE FOR LOCAL AUTHORITIES

No.	AFFORDABILITY INDICATORS	2013/14 Estimate	2013/14 Out-turn
1	**Financing Costs to Net Revenue Stream**	**%**	**%**
(a)	General Fund	-0.56	-0.84
2	**Impact of New Capital Investment**	**£ p**	**£ p**
(a)	Cumulative Increase in Council Tax (Band D, per annum)	1.53	0.77
No.	**CAPITAL EXPENDITURE INDICATORS**		
3	**Estimates of Gross Capital Expenditure**	**£'000**	**£'000**
(a)	General Fund	£23,462	£24,027
No.	**EXTERNAL DEBT INDICATORS**	**2013/14 Estimate**	**2013/14 Out-turn**
5	**Authorised limit for external debt -**	**£'000**	**£'000**
(a)	Borrowing	45,000	45,000
(b)	Other long term liabilities	16,000	16,000
(c)	TOTAL	61,000	61,000
6	**Operational boundary -**	**£'000**	**£'000**
(a)	Borrowing	40,000	40,000
(b)	Other long term liabilities	16,000	16,000
(c)	TOTAL	56,000	56,000

The Council's treasury management activities are regulated by a variety of professional codes and statutes and guidance:

The Local Government Act 2003 (the Act), which provides the powers to borrow and invest as well as providing controls and limits on this activity;

The Act permits the Secretary of State to set limits either on the Council or nationally on all local authorities restricting the amount of borrowing which may be undertaken ;

Statutory Instrument (SI) 3146 2003, as amended, develops the controls and powers within the Act. The SI requires the Council to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities;

The SI also requires the Council to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services;

Under the Act the CLG has issued Investment Guidance to structure and regulate the Council's investment activities.

Annexe B

Under section 238(2) of the Local Government and Public Involvement in Health Act 2007 the Secretary of State has taken powers to issue guidance on accounting practices. Guidance on Minimum Revenue Provision was issued under this section on 8th November 2007.

The Council has complied with all of the above relevant statutory and regulatory requirements which require the Council to identify and, where possible, quantify the levels of risk associated with its treasury management activities. In particular its adoption and implementation of both the Prudential Code and the Code of Practice for Treasury Management means both that its capital expenditure is prudent, affordable and sustainable, and its treasury practices demonstrate a low risk approach.