POLICY & RESOURCES CABINET BOARD

3rd SEPTEMBER 2013

FINANCE & CORPORATE SERVICES

REPORT OF THE HEAD OF FINANCIAL SERVICES – DAVID REES

INDEX OF REPORT ITEMS

PART 1 - Doc.Code: PRB-030913-REP-FS-DR

SECTION A – MATTERS FOR DECISION

ITEM 1

RATE RELIEF FOR CHARITIES AND NON-PROFIT MAKING ORGANISATIONS

1. Purpose of Report

1.1 This report recommends a scheme of rate relief for charities and non-profit making organisations for the period 1st April, 2014 to 31st March, 2017.

2. Background

2.1 The Local Government Finance Act 1988 provides rate relief from rates may be granted as follows:

(a) Mandatory Relief (80%)
Where a property is occupied by a charity and is used wholly or mainly for charitable purposes, and for community amateur sports clubs (as registered with HMRC).

(b) "Top Up" Discretionary Relief (up to 20%)
Where mandatory relief has been granted, an authority has the discretion to grant up to a further 20% relief.

(c) Discretionary Relief (up to 100%)
Where a property is occupied by an organisation which is not established or conducted for profit and whose objects are charitable, philanthropic, religious, or concerned with education, social welfare, science, literature or fine arts.

(d) Discretionary Relief (up to 100%)
Where a property is occupied by an organisation which is not established or conducted for profit and the property is wholly or mainly used for the purpose of recreation.

2.2 The cost of mandatory relief is met by the non-domestic rate pool. The cost of discretionary relief is shared between the pool and the local authority, as follows:

“Top Up” of Mandatory Relief
25% is met by the pool;
75% is met by the local authority.

Other
90% is met by the pool;
10% is met by the local authority.

2.3 The current criteria for granting discretionary relief were agreed at your meeting of 24th June 2010.

3. Criteria for Discretionary Rate Relief

3.1 The following are the current criteria for discretionary relief:

(a) that each application be treated on its merits;
(b) that the following general guidelines:

- membership of the organisation must normally be open to all sections of the community, and membership rates must not be set at a level which excludes the general community;
- it is accepted that reasonable restrictions may be placed on membership in relation to, for example, ability in a sport, achievement of a standard in the field covered by the organisation, or where the capacity of the facility is limited;
- favourable consideration will be given to applications from organisations whose objectives are in line with the authority’s corporate aims and values and community plan themes;
- top up relief will not normally be granted to charity shops or housing associations;
- top up relief will only be granted to an outreach facility provided by a college in a deprived ward, subject to excluding those wards within the main population centres;
- rate relief will not normally be granted in respect of any area of an organisation’s premises which are operated as a licensed bar and ancillary areas (e.g. cellars).

(c) that, having regard to the guidelines at (b) above, the types of organisation listed below in (e), will be granted 20% top up discretionary relief or 100% only relief, as appropriate.

(d) that having regard to the guidelines at (b) above, all other applications be treated on their merits.

(e) the organisations referred to in (c) above are:

- youth organisations (such as youth clubs, scouts and guide groups etc)
- OAP associations
- Gardening / horticultural societies
- Associations for the mentally handicapped
- Musical / theatrical groups
- Community associations
- Organisations concerned with education and training
- Sporting organisations
- Organisations concerned with voluntary and community services
- Organisations concerned with promoting economic development and enterprise
- Citizens' Advice Bureaux
- Organisations concerned with better health and well being
- Organisations concerned with the welfare of young people

4. Review of Funding to Third Sector Organisations

4.1 As Members are aware a review has commenced as to Council funding of Third Sector Organisations. In addition to grants and payment for services some Third Sector Organisations also benefit from business rates relief as set out under this policy. It is therefore proposed that the (Third Sector) Review Team consider the implication of this policy on funding Third Sector Organisations prior to inviting such bodies to apply for business rates relief from 1st April 2014.

4.2 If Members agree to the proposal this will enable:

(a) contact with non-third sector organisations to continue;
(b) the Financial Services Business Rates Section the opportunity to progress and assess entitlement prior to issuing the 2014/15 non-domestic rates bills;
(c) enable the (Third Sector) Review Team to consider this area of funding prior to any other decisions being made.

4.3 A further report to the Policy & Resources Cabinet Board setting out the Review Team's proposals re business rates relief will be forwarded to a future meeting.

5. Comments

5.1 The current scheme provides financial support to over 200 properties and is operated in line with Welsh Government proposals. However should the Welsh Government scheme change with regards to the 80% mandatory relief or any other element of relief, it will require us to reconsider our scheme based on the changes.

5.2 There are currently 162 accounts receiving discretionary relief (up to 20% top up), costing the authority £89,737.71. In addition to this there are currently 87 accounts receiving discretionary rate relief (up to 100%) costing the authority £63,437.91. Total cost to the authority £153,175.62.

6. Recommendations

6.1 That the criteria for granting discretionary rate relief as set out in paragraph 3 be approved.

6.2 That the new scheme of discretionary rate relief apply for the period 1st April, 2014 to 31st March, 2017, and that all re-applications and new applications be granted annually for the following financial years up to 31st March, 2017. No new applications will be necessary prior to 31st March 2017 unless Welsh Government change entitlement and funding levels to Mandatory and Discretionary Relief.

7. Reason for Proposed Decision

7.1 To implement a scheme of rate relief for charities and non-profit making organisation for the period 1st April, 2014 to 31st March, 2017.

List of Background Papers
Local Government Finance Act 1988.

Wards Affected
All

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COMPLIANCE STATEMENT

RATE RELIEF FOR CHARITIES AND NON-PROFIT MAKING ORGANISATIONS

(a) **Implementation of Decision**

The decision is proposed for implementation after the 3 day call-in period.

(b) **Sustainability Appraisal**

Community Plan Impacts:

Economic Prosperity	Positive
Education and Lifelong Learning	Positive
Better Health and Well Being	Positive
Environment and Transport	Positive
Crime and Disorder	Positive

Other Impacts:

Welsh Language	Positive
Sustainable Development	Positive
Equalities	Positive
Social Inclusion	Positive

(c) **Consultation**

There has been no requirement to consult under the Forward Work Programme.

SECTION C – MATTERS FOR MONITORING

ITEM 2

ANNUAL TREASURY MANAGEMENT OUTTURN REPORT 2012/13

1. Purpose of Report

1.1 This Council is required through 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). Some information incorporated within this report has been provided by the Council's Treasury Advisors Sector Treasury Services.

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

- an annual treasury strategy in advance of the year (Council 28th February 2012);
- a mid year (minimum) treasury update report (Cabinet 13th November 2012 and Council 12th December 2012);
- an annual review report of actual treasury management activities for the financial year 2012/13 (this report) compared to the strategy.

1.3 Recent changes in the regulatory environment place a much greater onus on members for the review and scrutiny of treasury management policy and activities. This report is 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.

1.4 This Council also confirms that it has complied with the requirement under the Code to give prior scrutiny to the annual strategy report, which was submitted to Cabinet in February 2012 before being reported to full Council.

2. Executive Summary

2.1 During 2012/13, the Council complied with its legislative and regulatory requirements. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

Prudential and Treasury Indicators	**2011/12 Actual £000**	**2012/13 Original Estimate £000**	**2012/13 Revised Estimate £000**	**2012/13 Actual £000**
Capital Expenditure	76,125	61,351	61,772	78,182
Capital Financing Requirement: • Non – HRA	197,724	230,439	211,335	206,516
External debt (gross) Less Investments Net Borrowing Position	173,818 (90,507) 83,311	172,834 (74,000) 98,834	172,834 (83,000) 89,834	172,834 (71,168) 101,666

2.2 The full list of prudential and treasury indicators are to be found in Appendix 1. During the financial year the Council operated within its treasury limits and Prudential Indicators.

2.3 The financial year 2012/13 was once again a challenging environment as in previous years with low investment returns and continuing counterparty risk.

3. Introduction and Background

3.1 This report summarises:

- Capital activity during the year;
- Impact of this activity on the Council’s underlying indebtedness (the Capital Financing Requirement);
- Reporting of the required prudential and treasury indicators;

- Overall treasury position identifying how the Council has borrowed in relation to this indebtedness, and the impact on investment balances;
- Summary of interest rate movements in the year;
- Detailed debt activity; and
- Detailed investment activity.

4. The Council’s Capital Expenditure and Financing 2012/13

4.1 The Council undertakes capital expenditure on long-terms assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc) which as no resultant impact on the Council’s borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

4.2 The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed:

	2011/12 Actual £’000	**2012/13 Original Estimate £’000**	**2012/13 Revised Estimate £’000**	**2012/13 Actual £’000**
Non-HRA Capital Expenditure	74,324	61,351	61,772	78,182
HRA Capital Expenditure	1,801	-	-	-
Total Capital Expenditure	**76,125**	**61,351**	**61,772**	**78,182**
Resourced by:				
• Capital Receipts	(2,550)	(950)	(950)	(2,265)
• Capital Grants & Contributions	(54,113)	(38,932)	(36,709)	(56,394)
• Capital Reserves & Direct Revenue Financing	(2,106)	(1,837)	(1,837)	(1,992)
Unfinanced Capital Expenditure (to be funded from Borrowing)	**(17,356)**	**(19,632)**	**(22,632)**	**(17,531)**

5. The Council's Overall Borrowing Need

5.1 The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's debt position. The CFR results from the capital activity of the Council and what resources have been used to pay for the capital spend. It represents the 2012/13 unfinanced capital expenditure (see previous table) and prior years' net of unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

5.2 Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Government, through the Public Works Loan Board [PWLB] or the money markets), or utilising temporary cash resources within the Council.

5.3 <u>Reducing the CFR</u> – the Council's (non HRA) underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Position – MRP, the reduce the CFR. This is effectively a repayment of the borrowing need. This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

5.4 The total CFR can also be reduced by:

- The application of additional capital financing resources (such as unapplied capital receipts); or
- Charging more that the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

5.5. The Council's 2012/13 MRP policy (as required by WAG Guidance) was approved by Council as part of the Treasury Management Strategy Report for 2012/13 during February 2012.

5.6. The Council's CFR for the year is shown below, and represents a key prudential indicator:

CFR	2011/12 Actual £'000	2012/13 Original Estimate £'000	2012/13 Revised Estimate £'000	2012/13 Actual £'000
Opening Balance	188,944	219,481	197,733	197,724
Add unfinanced capital expenditure (as above)	17,356	19,632	22,276	17,531
Less MRP / Set aside receipts	(8,576)	(8,674)	(8,674)	(8,739)
Closing Balance	**197,724**	**230,439**	**211,335**	**206,516**

5.7 The borrowing activity is constrained by prudential indicators for net borrowing and the CFT, and by the authorised limit.

5.8 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 used for a capital purpose. This essentially means that the Council is not borrowing to support revenue expenditure. Net borrowing should not therefore, except in the short term, have exceeded the CFR for 2012/13 plus the expected changes to the CFR over 2013/14 and 2014/15. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs in 2012/13. The table below highlights the Council's net borrowing position against the CFR. The Council has complied with this prudential indicator.

	31/3/12 Actual £m	31/3/12 Original Estimate £m	31/3/12 Revised Estimate £m	31/3/12 Actual 3m
Net borrowing position	83.311	98.834	89.834	101.666
CFR	197.733	230.439	211.335	206.516

5.9 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.

5.10 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.

	Actual 2012/13 £000
Authorised limit	244,834
Operational boundary	224,834
Maximum Gross Borrowing during 2012/13	174,972
Comprising of:	
Maximum Long Term Borrowing at any point during year	173,818
Maximum Short Term Borrowing at any point during year	1,154

The Council has maintained gross borrowing below the Authorised limit.

6. Treasury Position as at 31st March 2013

6.1 The Council's debt and investment position is managed by Finance Treasury Staff in order to ensure adequate liquidity for revenue and capital management activities. Procedures and controls to achieve these objectives are well established both through Member reporting detailed in the Council's Treasury Management Practices. At the beginning and the end of 2012/13 the Council's treasury position was as follows:

	31 March 2012 Principal	Rate / Return	31 March 2013 Principal	Rate / Return
Fixed rate funding:	**£m**	**%**	**£m**	**%**
- PWLB	111.3	5.47	110.3	5.43
- Market	62.5	3.93	62.5	3.93
Variable rate funding:				
- PWLB	-	-	-	-
- Market	-	-	-	-
Total Debt	**173.8**	**4.92**	**172.8**	**4.89**
Investments:				
- In house	90.5	1.68	71.2	1.29
- With managers	-	-	-	-
Total Investments	**90.5**	**1.68**	**71.2**	**1.29**

PWLB = Public Works Loans Board which is a body the Government has established to lend money to Local Government.

Market LOBO's = Lender Option Borrower Option – this is borrowing from the market when the lender has offered a long term loan but with options to continue or foreclose on the loan at various specific intervals.

7. The Strategy for 2012/13

7.1 The strategy for 2012/13 was approved by Cabinet Board and Council in February 2012.

7.2 Interest Rate and New Borrowing Forecasts:

(a) Rates were expected to rise gradually during the year and any long term borrowing should be taken at the start of the year when, and if, 25 year PWLB rates fell back to or below the target rate of 4.75% (a suitable trigger point for considering new fixed rate long term borrowing).

(b) Variable rate borrowing was expected to be cheaper than long term borrowing throughout the financial year.

(c) PWLB rates on loans of less than ten years duration were expected to lower than longer term PWLB rates allowing debt maturities to be spread away from a concentration in longer dated debt.

(d) Little difference was expected between PWLB 25 year and 50 year rates with any loans taken at 25-30 years being more attractive as these loans offer more advantageous early repayment and debt rescheduling opportunities.

(e) Consideration would be given to borrowing fixed rate market loans at 25-50 basis below the PWLB target rate of 4.75%.

(f) Although rates fell below the trigger point of 4.75% no new borrowing was carried out in 12/13, we continued to use internal cash balances as investment rates are at all time low.

7.3 The main sensitivities to the forecasts were:

- If a sharp fall in long and short term rates (due to risks around relapse into recession, deflation etc) was likely then long term borrowings would be postponed and potential rescheduling from fixed rate funding into short terms borrowing would be considered.

- If a sharp rise in long and short term rates was likely (due to an increase in world economic activity or inflation risks) then fixed rate funding would be considered before any increases took effect.

7.4 Investments

The Council continued with its main investment priorities:

(a) security of capital
(b) liquidity of capital

with the aim of achieving the optimum return commensurate with proper levels of security and liquidity. With investments being dominated by low counterparty risk considerations, relatively low returns were expected when compared to borrowing rates.

7.5 For balances generated through normal cashflow the strategy looked to utilise the business reserve (call account) and short dated deposits.

7.6 External v Internal Borrowing

Investment rates were expected to be below long term borrowing rates for the foreseeable future. In previous years new capital expenditure has been financed using internal cash balances instead of new external borrowing. However, in 2013/14 and subsequent years, it is the intention where appropriate to externally borrow to fund capital expenditure. This strategy will ensure that the council is able to borrow at low interest rates instead of delaying unavoidable borrowing until latter years when PWLB long term rates are forecast to be significantly higher.

7.7 Debt Rescheduling

The strategy did allow for the use of investment balances to repay debt prematurely providing it was economically worthwhile and it enhanced the maturity profile of the debt portfolio.

No debt rescheduling was anticipated (or took place) in 2012/13 particularly as the PWLB rate structures have made it more expensive in recent years to do so.

8. The Economy and Interest Rates

8.1 Sovereign Debt Crisis

The EU Sovereign Debt Crisis was an ongoing saga during the year. However, the ECB statement in July that it would do “whatever it takes” to support struggling Eurozone countries provided a major boost in confidence that the Eurozone was (at last) beginning to get on top of its problems. This was followed by the establishment of the Outright Monetary Transactions Scheme in September. During the summer, a €100bn package of support was given to Spanish banks.

The crisis over Greece blew up again as it became apparent that the first bailout package was insufficient. An eventual very protracted agreement of a second bailout for Greece in December was then followed by a second major crisis, this time over Cyprus, towards the end of the year.

In addition, the Italian general election in February resulted in the new Five Star anti-austerity party gaining a 25% blocking vote; this has the potential to make Italy almost ungovernable if the grand coalition formed in April proves unable to agree on individual policies. This could then cause a second general election – but one which could yield an equally ‘unsatisfactory’ result!

This result emphasises the dangers of a Eurozone approach heavily focused on imposing austerity, rather than promoting economic growth, reducing unemployment, and addressing the need to win voter support in democracies subject to periodic general elections. This weakness leaves continuing concerns that this approach has merely postponed the ultimate debt crisis, rather than provide a conclusive solution.

These problems, will, in turn, also affect the financial strength of many already weakened EU banks during the expected economic downturn in the EU. There are also major questions as to whether the Greek Government will be able to deliver on its promises of cuts in expenditure and increasing tax collection rates, given the hostility of much of the population.

8.2 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. Moody's followed up this warning by actually downgrading the rating to AA+ in February 2013 and Fitch then placed their rating on negative watch, after the Budget statement in March. Key to retaining the AAA rating from Fitch and S&P will be return to strong economic growth in order to reduce the national debt burden to a sustainable level, within a reasonable timeframe.

8.3 UK Growth

2012/13 started the first quarter with negative growth of -0.4%. This was followed by an Olympics boosted +0.9% in the next quarter, then by a return to negative growth of -0.3% in the third quarter and finally a positive figure of +0.3% in the last quarter. This weak UK growth resulted in the Monetary Policy Committee increasing quantitative easing (QE) by £50bn in July to a total of £375bn on concerns of a downturn in growth and a forecast for inflation to fall below the 2% target. QE was targeted at further gilt purchases. In the March 2013 Budget, the Office of Budget Responsibility yet again slashed its previously over optimistic growth forecasts, for both calendar years 2013 and 2014, to 0.6% and 1.8% respectively.

8.4 UK CPI inflation has remained stubbornly high and above the 2% target, starting the year at 3.0% and still being at 2.8% in March; however, it is forecast to fall to 2% in three years time. The MPC has continued its stance of looking through temporary spikes in inflation by placing more importance on the need to promote economic growth.

8.5 Gilt yields oscillated during the year as events in the ongoing Eurozone debt crisis ebbed and flowed, causing corresponding fluctuations in safe haven flows into / out of UK gilts. This, together with a further £50bn of QE in July and widely expected further QE still to come, combined to keep PWLB rates depressed for much of the year at historically low levels.

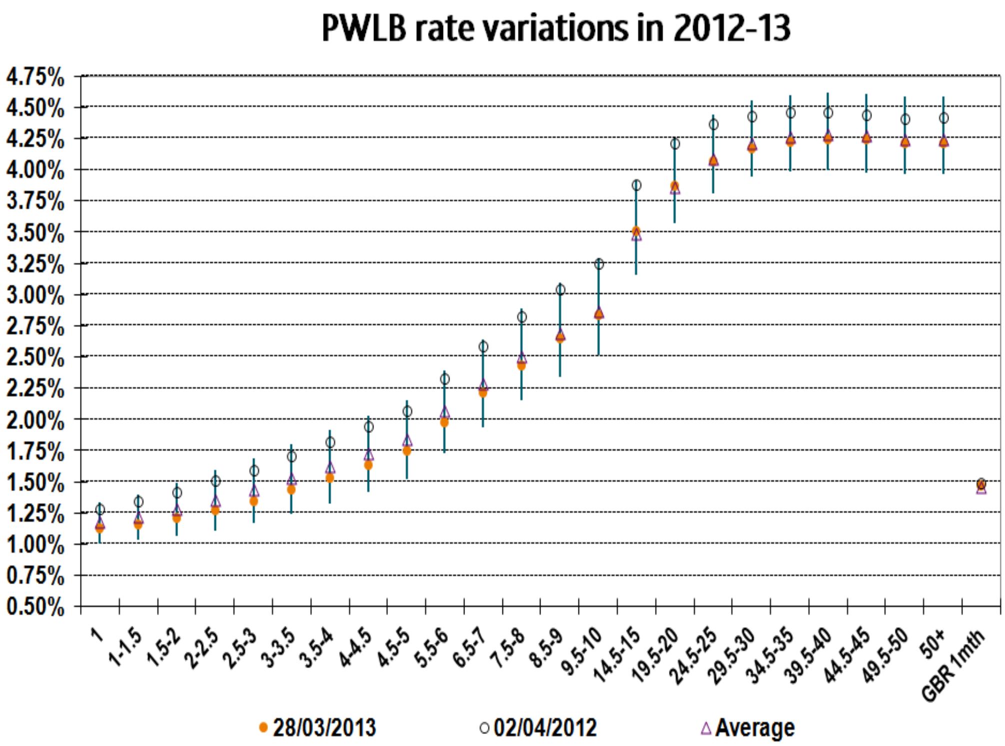
8.6 Bank Rate was unchanged at 0.5% throughout the year, while expectations of when the first increase would occur were pushed back to quarter 1 2017 at the earliest, following forward guidance issued by the Bank of England.

8.7 Deposit Rates

The Funding for Lending Scheme, announced in July, resulted in a flood of cheap credit being made available to banks and this has resulted in money market investment rates falling sharply in the second half of the year. However, perceptions of counterparty risk have improved after the ECB statement in July that it would do "whatever it takes" to support struggling Eurozone countries. This has resulted in some return of confidence to move away from only very short term investing.

9. Borrowing Rates in 2012/13

9.1 PWLB borrowing rates – the graph and table for PWLB maturity rates below show, for a selection of maturity periods, the range (high and low points) in rates, the average rates and individual rates at the start and the end of the financial year



	PWLB borrowing rates 2012/13 for 1 to 50 years								
	1	1-1.5	2.5-3	3.5-4	4.5-5	9.5-10	24.5-25	49.5-50	1 month variable
2/4/12	1.290%	1.350%	1.600%	1.820%	2.070%	3.250%	4.370%	4.410%	1.490%
28/3/13	1.130%	1.160%	1.350%	1.540%	1.750%	2.840%	4.070%	4.220%	1.470%
High	1.330%	1.400%	1.690%	1.910%	2.150%	3.290%	4.440%	4.590%	1.500%
Low	1.000%	1.030%	1.170%	1.320%	1.520%	2.520%	3.810%	3.960%	1.440%
Average	1.185%	1.229%	1.440%	1.631%	1.847%	2.871%	4.094%	4.250%	1.467%
Spread	0.330%	0.370%	0.520%	0.590%	0.630%	0.770%	0.630%	0.630%	0.060%
High date	20/4/12	20/4/12	20/4/12	20/4/12	20/4/12	20/2/13	20/2/13	20/2/13	18/4/12
Low date	2/8/12	2/8/12	23/7/12	23/7/12	23/7/12	23/7/12	18/7/12	1/6/12	24/10/12

10. Borrowing Outturn for 2012/13

10.1 Treasury Borrowing - the following temporary loans were completed in the year:

Start Date	Lender	Principle	Period	Rate
24/05/2012	Worcestershire CBC	£4,000,000	14 Days	0.28%
28/05/2012	Caerphilly CBC	£2,000,000	10 Days	0.28%
29/05/2012	Rhondda Cynon Taff CBC	£2,750,000	10 Days	0.28%
20/12/2012	Worcestershire CBC	£3,430,000	15 Days	0.31%
21/12/2012	Greater Manchester	£1,500,000	14 Days	0.27%

10.2 Borrowing – No new PWLB or Market loans were entered into in the year.

10.3 Rescheduling – No loans were rescheduled during 2012/13.

11. Investment Rates in 2012/13

11.1 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 were pushed back during the year to early 2017 at the earliest. The Funding for Lending Scheme resulted in a sharp fall in deposit rates in the second half of the year.

	Money market investment rates 2012/13					
	overnight	7 day	1 month	3 month	6 month	1 year
1/4/12	0.432	0.457	0.571	0.902	1.221	1.738
31/3/13	0.361	0.365	0.371	0.382	0.478	0.784
High	0.432	0.457	0.571	0.902	1.221	1.739
Low	0.348	0.355	0.366	0.382	0.476	0.783
Average	0.382	0.394	0.428	0.564	0.782	1.207
Spread	0.084	0.102	0.205	0.520	0.744	0.956
Date	1/4/12	1/4/12	1/4/12	1/4/12	1/4/12	24/4/12
Date	31/12/12	31/1/13	29/1/13	1/3/13	13/3/13	19/3/13

12. Investment Outturn for 2012/13

12.1 Investment Policy – the Council's investment policy is governed by Welsh Government guidance, which has been implemented in the annual investment strategy approved by the Council in 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 (such as rating outlooks, credit default swaps, bank share prices etc).

12.2 The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

12.3 Resources – the Council's longer terms cash balances comprise, primarily, revenue and capital resources, although these will be influenced by cash flow considerations. The Council's core cash resources comprised the following:

Balance Sheet Resources	**31 March 2012 £m**	**31 March 2013 £m**
Balances and Earmarked Reserves	58.491	54.038
Provisions	2.691	2.405
Usable capital receipts	9.617	8.045
Total	70.799	64.488

12.4 Investments held by the Council – the Council received the following return on its investments:

* Average Investment £'000	External Interest Earned £'000	Rate of Return	Benchmark Return
89,333	1,069	1.197%	0.564%

* The Average Investment includes the amount outstanding from Icelandic Banks.

The Investment return excluding Icelandic related bank investments would be 1.294% (on an average investment of £82.601m). The benchmark for funds managed in house is the 3 month LIBID uncompounded. The rate reflects a more realistic neutral position for core investments with a medium term horizon and a rate which is more stable with fewer fluctuations caused by market liquidity.

13. Performance Management

13.1 One of the key requirements in the Code is the formal introduction of performance measurement relating to investments, debt and capital financing activities. Whilst investment performance criteria have been well developed and universally accepted, debt performance indicators continue to be a more problematic area with the traditional average portfolio rate of interest acting as the main guide (as incorporated in the table in section 6). The Council’s original performance indicators for 2012/13 were set out in the Annual Treasury Strategy approved by Council in February 2012.

14. Icelandic Bank Defaults

14.1 As at the 31st March 2013, the Authority had the following investments frozen in Icelandic Banks:

Bank Name	Balance Remaining £m
Glitnir Bank	0
Heritable Bank	1.934
KSF	0.655
Landsbanki	3.004
Total	**5.593**

14.2 The initial ruling in the court cases re Glitnir and Landsbanki in Iceland have confirmed that Local Authority deposits are to be viewed as preferential creditors. The Glitnir investment has been repaid and regular instalment payments are being received in relation to the other investment balances.

Recommendation
It is recommended that Members note the 2012/13 treasury management function performance as set out in this report including the actual 2012/13 prudential and treasury indicators.

List of Background Papers
Treasury Management Closing Files 2012/13
Sector Treasury Management Templates

Appendix
Appendix 1 – Prudential Indicators

Wards Affected
All

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PRUDENTIAL INDICATORS	**2011/12 Actual**	**2012/13 Original Estimate**	**2012/13 Revised Estimate**	**2012/13 Actual**
	£'000	**£'000**	**£'000**	**£'000**
Capital Expenditure				
Non – HRA	74,324	61,351	61,772	78,182
HRA	1,801	-	-	-
Ratio of financing costs to net revenue stream	**%**	**%**	**%**	**%**
Non - HRA	6.54	6.87	6.45	6.34
HRA	-	-	-	
	£'000	**£'000**	**£'000**	**£'000**
Non HRA – In year borrowing requirement	8,780	10,958	10,555	8,792
HRA	-	-	-	
	£'000	**£'000**	**£'000**	**£'000**
Capital Financing Requirement as at 31st March				
Non – HRA	197,724	230,439	211,335	206,516
Incremental impact of capital investment decisions	**£ p**	**£ p**	**£ p**	**£ p**
Increase in council tax (Band D) per annum	10.71	18.88	(10.53)	(7.80)
Increase in average housing rent per week (All of the capital expenditure is funded by Grant)	-	-	-	

Appendix 1

TREASURY MANAGEMENT INDICATORS	2011/12 Actual	2012/13 Original Estimate	2012/13 Revised Estimate	2012/13 Actual
	£'000	**£'000**	**£'000**	**£'000**
Authorised Limit for External Debt:				
Borrowing	268,396	324,150	244,834	244,834
Other Long Term Liabilities		-	-	-
TOTAL	**268,396**	**324,150**	**244,834**	**244,834**
Operational Boundary for External Debt:				
Borrowing	248,396	304,150	224,834	224,834
Other Long Term Liabilities	-	-	-	-
TOTAL	**248,396**	**304,150**	**224,834**	**224,834**
External Debt (Gross)	**173,818**	**172,834**	**172,834**	**172,834**
Less Investments	(90,507)	(74,000)	(83000)	(71,168)
Net Borrowing Position	**83,311**	**98,834**	**89,834**	**101,666**

Appendix 1

TREASURY MANAGEMENT INDICATORS	2011/12 Actual	2012/13 Original Estimate	2012/13 Revised Estimate	2012/13 Actual
	£’000	**£’000**	**£’000**	**£’000**
Authorised Limit for External Debt:				
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Other Long Term Liabilities		-	-	-
TOTAL	**268,396**	**324,150**	**244,834**	**244,834**
Operational Boundary for External Debt:				
Borrowing	248,396	304,150	224,834	224,834
Other Long Term Liabilities	-	-	-	-
TOTAL	**248,396**	**304,150**	**224,834**	**224,834**
External Debt (Gross)	**173,818**	**172,834**	**172,834**	**172,834**
Less Investments	(90,507)	(74,000)	(83000)	(71,168)
Net Borrowing Position	**83,311**	**98,834**	**89,834**	**101,666**

Appendix 1

Maturity Structure of Fixed Rate Borrowing During 2012/13	**2011/12 Actual**	**2012/13 Original Estimate**		**2012/13 Actual**
	%	**Upper Limit %**	**Lower Limit %**	**%**
Under 12 months	1	**15**	**0**	**1**
12 months to 2 years	1	**15**	**0**	**1**
2 to 5 years	7	**40**	**0**	**6**
5 to 10 years	16	**60**	**0**	**19**
10 years and above	75	**100**	**15**	**73**

SECTION B – MATTERS FOR MONITORING

ITEM 3

TREASURY MANAGEMENT REPORT 2013/14

1. Purpose of Report

This report sets out treasury management action and information since the previous report.

2. Rates of Interest

Bank base rates continue to be at an all time low of 0.5% (since 5th March 2009) and detailed below are the changes in the bank base rate since April 2008.

Effective Date	Bank Rate
10 April 2008	5.00%
08 October 2008	4.50%
06 November 2008	3.50%
04 December 2008	2.00%
08 January 2009	1.50%
05 February 2009	1.00%
05 March 2009 to date	0.50%

The following table provides examples of external borrowing costs as provided by the Public Works Loans Board as at 12th August 2013.

	Equal Instalments of Principal		Annuity		Maturity	
	Previous 25 June 13	**Current 12 Aug 13**	**Previous 25 June 13**	**Current 12 Aug 13**	**Previous 25 June 13**	**Current 12 Aug 13**
	%	%	%	%	%	%
5-5.5 years	1.72	1.54	1.72	1.55	2.45	2.33
10-10.5 years	2.45	2.33	2.49	2.37	3.47	3.48
20-20.5 years	3.47	3.48	3.59	3.62	4.18	4.21
35-35.5 years	4.18	4.12	4.21	4.24	4.41	4.37
49.5-50 years	4.31	4.31	4.40	4.37	4.38	4.35

3. General Fund Treasury Management Budget

The following table sets out the treasury management budget for 2013/14 and consists of a gross budget for debt charges i.e. repayment of debt principal and interest, and interest returns on investment income.

The rate of return on investments has reduced considerably in 13/14 due to schemes introduced by Central Government (Funding for Lending, Help to Buy), therefore we have had to reduce our income target for investments by £350,000. There is no overall change to the debt charges budget as expenditure has reduced in line with income.

	2013/14 Original Budget £'000	**2013/14 Revised Budget £'000**
Debt Charges	17,466	17,166
Investment Income		
- Total	(1,250)	(900)
- less allocated to other funds	210	160
- General Fund (net)	(1,040)	(740)
Net General Fund	**16,426**	**16,426**

NB: Other funds include Trust Funds, Social Services Funds, Schools Reserves, Bonds etc.

4. Borrowing

Temporary short-term borrowing has been carried out since the last report totalling £11.5m. This was entered into due to short-term cash flow requirements it was fully repaid on the 5th August 2013. The cost of short term borrowing was less than the loss of interest on investments.

5. Investment Income

In line with the Council's Investment Strategy, the 2013/14 Revised Budget for investment income is £900,000, treasury management investment income to the end of August totals £432,000.

Members should note that all investments are classified as 'specified' i.e. up to 12 months and are currently with the major banks including Barclays, Lloyds Group, Bank Santander, Clydesdale, RBS and Nationwide BS.
<u>Icelandic Bank Update</u>

Members should note the following position in relation to the recovery of monies from investments in Icelandic related banks.

There have been no further dividends received since the last report. The next dividend is expected to be received in December 2013 from the Administrators of Landsbanki.

Table 1 – Original Investments

Bank	Original Investment	Amount of Principal Repaid	Current Outstanding Investment
	£'000	**£'000**	**£'000**
Glitnir	2,000	2,000	0
Heritable	9,000	7,066	1,934
KSF	3,000	2,439	561
Landsbanki Islands HF	6,000	2,995	3,005
	20,000	**14,500**	**5,500**

In addition to the amounts listed above, an additional £50,000 was received in relation to the Glitnir Bank settlement. This £50,000 was in respect of interest due on the original investment.

Table 2 – Investments Held in Escrow Accounts – Icelandic Kroner

Bank	Investment (Sterling Equivalent) £'000	Amount Repaid £'000	Outstanding Investment £'000
New Glitnir	387	0	387
New Landsbanki	47	0	47
	434	**0**	**434**

Some of the investments matured by the old Glitnir and Landsbanki banks have resulted in cash being held in the form of Icelandic Kroner. In line with Icelandic law, the Kroner is not tradable and can only be spent within Iceland. The Local Government Association is pursuing ways of transferring these investments to realise repayments into Sterling. These new investments with the new banks are held in Escrow Accounts in the name of the local authority and generating interest in excess of 4%.

List of Background Papers
Treasury Management Files
PWLB Notice Number 309/13

Appendix
None

Wards Affected
All

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