

POLICY & RESOURCES CABINET BOARD

13TH SEPTEMBER 2012

DIRECTORATE OF FINANCE & CORPORATE SERVICES

**REPORT OF THE HEAD OF FINANCIAL SERVICES
– HYWEL JENKINS**

INDEX OF REPORT ITEMS

PART 1 - Doc.Code: PRB-130912-REP-FS-HJ

SECTION A – MATTER FOR DECISION		
Report Item	Page Nos	Wards Affected
1. Members Remuneration – The Independent Remunerate Panel for Wales Draft Report for 2013/14	2-5	All
2. Request for approval of a Single Tender for the Supply of a Web Based Virtual Library	6-9	All
3. Insurance Arrangements 2012	10-11	All
4. Annual Treasury Management Outturn Report 2011/12	12-29	All
SECTION B – MATTERS FOR INFORMATION		
5. Treasury Management Progress Report	30-33	All

SECTION A – MATTERS FOR DECISION

ITEM 1

MEMBERS REMUNERATION – THE INDEPENDENT REMUNERATE PANEL FOR WALES DRAFT REPORT FOR 2013/14

1. Purpose of Report

To consider the Independent Remuneration Panel for Wales Draft report in relation to Members Remuneration for 2013/14 (copy placed in Members' room).

2. Background

This is the fifth Annual Report of the Panel and its second since the approval of the Local Government (Wales) Measure 2011.

In line with the Panel's Terms of Reference, it is required to consult on any amendments proposed to the current framework prior to finalising their report for 2013/14 due in December 2012. This draft report sets out those considerations.

3. Proposals for 2013/14

The draft report sets out:

- the proposed amounts payable for 2013/14 including the maximum number of senior salaries payable. The report proposes that both the amount payable and the maximum number of Members that are eligible to receive a senior salary remain unchanged. See Appendix 1 for details. However the Panel proposes to add 2 changes to the framework and they are:
 - (a) if a Council makes a senior salary available to a Chair of an Overview and Scrutiny Committee, it must do so for all such Chairs;
 - (b) a Council must make a senior salary available to the Leader of the largest opposition group.

Members should note that the Council's scheme is in line with these requirements.

- the requirement for each Local Authority to publicise its Remuneration Scheme;
- the requirement to publish the amounts paid during the previous year;
- to provide copies of published documents to the Panel.

4. Response to Consultation

Members views are sought in relation to the draft report and whether any response is to be made by the end of the consultation process which closes on the 28th September 2012.

5. Recommendation

It is recommended that Members consider this report and any response to be forwarded to the Independent Remuneration Panel for Wales.

List of Background Papers

Draft Annual Report for 2013/14 – Independent Remuneration Panel for Wales (copy previously emailed to all Members and hard copy deposited in the Members' room).

Appendix

Appendix 1 – Members Remuneration / Travel & Subsistence Scheme 2012 /13 and proposed for 2013 / 14 per Draft Panel Report

Wards Affected

All

Officer Contact

For further information on this report item, please contact: -

Mr. Hywel Jenkins - Head of Financial Services
Tel. No. 01639 763646
E-mail: h.jenkins@npt.gov.uk

COMPLIANCE STATEMENT

MEMBERS REMUNERATION – THE INDEPENDENT REMUNERATE PANEL FOR WALES DRAFT REPORT FOR 2013/14

Implementation of Decision

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

Sustainability Appraisal

Community Plan Impacts

Economic Prosperity	-	No impact
Education & Lifelong Learning	-	No impact
Better Health & Well Being	-	No impact
Environment & Transport	-	No impact
Crime & Disorder	-	No impact

Other Impacts

Welsh Language	-	No impact
Sustainable Development	-	No impact
Equalities	-	Positive
Social Inclusion	-	Positive

Consultation

There is no requirement under the Constitution for external consultation on this item.

**MEMBERS' REMUNERATION/TRAVEL & SUBSISTENCE SCHEME 2012/13
AND PROPOSED FOR 2013/14 PER DRAFT PANEL REPORT**

Local Authority Basic Salary £13,175

Senior Salaries

Maximum number of Senior Salaries: 18

Senior Salary Rates:

(Inclusive of Basic Salary)

Band 1	Leader	£47,500
	Deputy Leader	£33,460
Band 2	Other Executive Members	£28,780
Band 3	Chairs of Scrutiny, Planning, Licensing and Audit Committees	£21,910
	Largest Opposition Group Leader	£21,910

Note: For 2012/13 Senior Salaries will not be paid until the 18th May in the case of the Leader and Deputy Leader (who will be appointed at the Annual Meeting) and until 30th May in the case of other Cabinet Members.

Civic Salaries:

(Inclusive of Basic Salary)

Mayor	£21,375
Deputy Mayor	£16,625

Co-opted Member payments:

Committee Chair (including Standards Committee)	£256 daily fee (£128 *half day)
All other qualifying Co-optees	£198 daily fee (£99 *half day) (*i.e up to 4 hours)

Support Allowance:

£200 per annum (except for Executive Members)

The Reimbursement of Expenses:

Maximum limits for the reimbursement of actual sums expended when conducting official business* *supported by receipts.

Care allowance:

a maximum of £403 per month

Travel Allowance:

- 45p per mile – up to 10,000 miles
- 25p per mile – above 10,000 miles
- 5p per passenger per mile – passenger supplement
- 24p per mile – private motor cycles
- 20p per mile – bicycles

Subsistence Allowance:

£28 per day maximum but divided between different meals
£150 London overnight
£120 Cardiff overnight
£95 elsewhere overnight
Nothing for staying with friends

Note: No provision is made for the payment of travel expenses in respect of "ward duties" due to the difficulty of administering this.

ITEM 2

REQUEST FOR APPROVAL OF A SINGLE TENDER FOR THE SUPPLY OF WEB BASED VIRTUAL LIBRARY

1. Purpose of Report

To request Members approval to award a three year corporate subscription for the “Technical Indexes” service to IHS (Global) Ltd.

2. Background

Technical Indexes is a web-based subscription service which enables access through its online portal, to the following libraries of information.

Construction Information Service

Building Control

Specify-it

Occupational Health and Safety Information Service (including Environmental Management and Food and Drink)

LACORS Trading Standards Specialist

These libraries contain British Standards Information, relevant and updated legislation, appropriate catalogues and selected articles from specialist journals.

The Authority has previously had a three year subscription to this service which expires on the 18th November 2012.

The subscription fee is currently paid on behalf of several subscribers including:

Building Control

Architects & Project Management

Trading Standards

Health and Safety

SWTRA

3. Financial Implications

IHS (Global) Ltd has proposed a continued use of the Technical Indexes service based upon a three year subscription package. The package of products included are specifically tailored for Local Authorities and incorporate an automatic 40% discount compared to standard market prices.

As part of the three year agreement, the annual costs would be subject to a percentage uplift. This would be fixed at a level of 5% year on year.

The costs for the three years will be as follows:

2012/2013	£17,266
2013/2014	£18,129
2014/2015	£19,036

4. Market Appraisal

The service from IHS (Global) Ltd. has been used by the Authority for a number of years now and is a valuable tool for many officers.

The requirement has been tendered in the past, but the Corporate Procurement Unit are now aware that the main competitor in the market (Barbour) no longer offers the entire inclusive package the Authority requires, and only offers Building Control, Construction and Health and Safety elements.

There are a number of suppliers that can offer elements of the service from IHS (Global) Ltd, but no other competitor can offer the full suite of documents required.

Splitting the service would not be cost effective as there will be the need to have multiple subscriptions to various suppliers to cover all of the Authority's needs at an increased cost.

5. Recommendation

Members approve the award of the above contract, commencement date 19th November 2012 for a period of three years.

Reasons for Decision

To obtain the most cost effective and efficient arrangement for a subscription based library accessed system for the Authority, and to ensure the Authority complies with the Council's Contract Procedure Rules.

List of Background Papers

Appendix

None

Wards Affected

All

Officer Contact

For further information on this report item, please contact: -

Mr Hywel Jenkins – Head of Financial Services

Tel. No: 01639 763646

E-mail: h.jenkins@npt.gov.uk

Mr Stuart Smith – Acting Corporate Procurement Manager

Tel. No: 01639 763928

E-mail: s.d.smith@npt.gov.uk

COMPLIANCE STATEMENT

REQUEST FOR APPROVAL OF A SINGLE TENDER FOR THE SUPPLY OF WEB BASED VIRTUAL LIBRARY

Implementation of Decision

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

Sustainability Appraisal

Community Plan Impacts

Economic Prosperity	-	Positive
Education & Lifelong Learning	-	No impact
Better Health & Well Being	-	Positive
Environment & Transport	-	Positive
Crime & Disorder	-	No impact

Other Impacts

Welsh Language	-	No impact
Sustainable Development	-	No impact
Equalities	-	Positive
Social Inclusion	-	Positive

Consultation

There is no requirement under the Constitution for external consultation on this item.

ITEM 3

INSURANCE ARRANGEMENTS 2012

1. Purpose of Report

- 1.1 The purpose of the report is to advise Members that the Council's insurance renewal negotiations for October 2012 with the underwriters are carried out on our behalf by our insurance brokers, Marsh Limited.

2. Background

- 2.1 During 2010, the Council's insurance brokers, Marsh Limited, conducted an EU compliant procurement exercise to obtain a new long term agreement for five years from 1st October 2010 for all the Council's main insurance policies other than material damage for buildings (which was re-tendered onto a long term agreement from October 2009). The renewals currently being evaluated for 1st October 2012 will include all the insurance policies of the Authority including material damage buildings.

3. Renewal Arrangements and Premiums 2012/13

- 3.1 A meeting has been arranged with Marsh to review the insurance renewal premiums and any changes to policies, including to self-insurance "excess" amounts for week commencing 10th September. As the insurance policies must be in place for the 1st October 2012 details of the renewal arrangements and premiums will be tabled at the meeting for Members consideration and approval.

List of Background Papers

Insurance Renewal Files.

Appendix

None

Wards Affected

All

Officer Contact

Mr Hywel Jenkins – Head of Financial Services
Tel. No: 01639 763646
E-mail: h.jenkins@npt.gov.uk

Mrs Janet North – Chief Accountant – Technical
Tel. No: 01639 763635
E-mail: j.north@npt.gov.uk

COMPLIANCE STATEMENT

INSURANCE ARRANGEMENTS 2012

Implementation of Decision

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

Sustainability Appraisal

Community Plan Impacts

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

Other Impacts

Welsh Language	-	No impact
Sustainable Development	-	Positive
Equalities	-	Positive
Social Inclusion	-	No impact

Consultation

There is no requirement under the Constitution for external consultation on this item.

ITEM 4

ANNUAL TREASURY MANAGEMENT OUTTURN REPORT 2011/12

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 2011/12. 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 2011/12 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 2nd March 2011)
 - a mid year (minimum) treasury update report (Cabinet 1st December 2011 and Council 7th December 2012)
 - an annual review report of actual treasury management activities for the financial year 2011/12 (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 March 2011 before being reported to full Council.

2.0 Executive Summary

- 2.1 During 2011/12, 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	2010/11 Actual £000	2011/12 Original Estimate £000	2011/12 Revised Estimate £000	2011/12 Actual £000
Capital Expenditure	43,716	71,808	78,366	76,125
Capital Financing Requirement: • Non-HRA	188,944	199,968	200,756	197,733
External debt (gross) Less Investments	174,815 (96,452)	185,599 (76,000)	173,818 (70,000)	173,818 (90,507)
Net Borrowing Position	78,363	109,599	103,818	83,311

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 2011/12 was once again a challenging environment as in previous years with low investment returns and continuing counterparty risk.

3.0 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

4.0 The Council's Capital Expenditure and Financing 2011/12

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

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc), which has 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.

	2010/11 Actual	2011/12 Original Estimate	2011/12 Revised Estimate (Dec 11)	2011/12 Actual
	£'000	£'000	£'000	£'000
Non-HRA capital expenditure	36,776	71,808	78,366	74,324
HRA capital expenditure	6,940	-	-	1,801
Total capital expenditure	43,716	71,808	78,366	76,125
Resourced by:				
• Capital receipts	(212)	(778)	(3,244)	(2,550)
• Capital grants & contributions	(24,412)	(44,299)	(44,310)	(54,113)
• Capital reserves + Direct Revenue Financing	(7,117)	(7,258)	(10,111)	(2,106)
Unfinanced capital expenditure (to be funded from Borrowing)	(11,539)	(19,473)	(20,701)	(17,356)

5.0 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 2011/12 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 Reducing the CFR – 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 Provision –MRP, to 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 than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).
- 5.5 The Council's 2011/12 MRP Policy (as required by WAG Guidance) was approved by Council as part of the Treasury Management Strategy Report for 2011/12 during March 2011.
- 5.6 The Council's CFR for the year is shown below, and represents a key prudential indicator.

CFR	31/3/11 Actual £'000	31/3/12 Original Estimate £'000	31/3/12 Revised Estimate £'000	31/3/12 Actual £'000
Opening balance	219,692	189,077	188,944	188,944
Add unfinanced capital expenditure (as above)	11,539	19,473	20,701	17,356
Less MRP/Set aside receipts	(9,505)	(8,582)	(8,889)	(8,567)
Repayment of HRA loans due to Housing Stock Transfer	(32,782)	-	-	-
Closing balance	188,944	199,968	200,756	197,733

5.7 The borrowing activity is constrained by prudential indicators for net borrowing and the CFR, 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 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 2011/12 plus the expected changes to the CFR over 2012/13 and 2013/14. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs in 2011/12. The table below highlights the Council's net borrowing position against the CFR. The Council has complied with this prudential indicator.

	31/3/11 Actual £m	31/3/12 Original Estimate £m	31/3/12 Revised Estimate £m	31/3/12 Actual £m
Net borrowing position	78.363	109.599	103.818	82.327
CFR	188.944	199.968	200.756	197.733

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 2011/12 £000
Authorised limit	268,396
Operational boundary	248,396
Maximum Gross Borrowing during 2011/12	188,087
<u>Comprising of:</u>	
Maximum Long Term Borrowing at any point during year	174,815
Maximum Short Term Borrowing at any point during year	13,272

The Council has maintained gross borrowing below the Authorised limit.

6.0 Treasury Position as at 31st March 2012

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 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 executive summary, and through officer activity detailed in the Council’s Treasury Management Practices. At the beginning and the end of 2011/12 the Council’s treasury position was as follows:

	31 March 2011 Principal	Rate / Return	31 March 2012 Principal	Rate / Return
Fixed rate funding:	£m	%	£m	%
-PWLB	112.3	5.51	111.3	5.47
-Market	62.5	3.93	62.5	3.93
Variable rate funding:				
-PWLB	-	-	-	-
-Market	-	-	-	-
Total debt	174.8	4.94	173.8	4.92
Investments:				
- in house	96.5	1.12	90.5	1.68
- with managers	-	-	-	-
Total investments	96.5	1.12	90.5	1.68

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.

7.0 The Strategy for 2011/12

7.1 The strategy for 2011/12 was approved by Cabinet Board and Council in March 2011.

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 be 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%

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 term 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 2012/13 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 2011/12 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. 2011/12 was the year when financial markets were apprehensive, fearful of the potential of another Lehman's type financial crisis if there was a precipitous Greek Government debt default. The European Central Bank (ECB) eventually calmed market concerns of a liquidity crisis among European Union (EU) banks by making available two large three year credit lines, totalling close to €1 trillion at 1%. This also provided a major incentive for those same banks to then use this new liquidity to buy EU sovereign debt yielding considerably more than 1%.

A secondary benefit of this initiative was the bringing down of sovereign debt yields, for the likes of Italy and Spain, below unsustainable levels. The final aspects in the calming of the EU sovereign debt crisis were two eleventh hour agreements: one by the Greek Government of another major austerity package and the second, by private creditors, of a "haircut" (discount) on the value of Greek debt that they held, resulting in a major reduction in the total outstanding level of Greek debt. These agreements were a prerequisite for a second EU / IMF bailout package for Greece which was signed off in March.

Despite this second bailout, major concerns remain that these measures were merely a postponement of the debt crisis, rather than a solution, as they did not address the problem of low growth and loss of competitiveness in not only Greece, but also in other EU countries with major debt imbalances. 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. Key to retaining this rating will be a return to strong economic growth in order to reduce the national debt burden to a sustainable level, within the austerity plan timeframe. The USA and France lost their AAA credit ratings from one rating agency during the year.

8.3 UK growth proved mixed over the year. In quarter 2, GDP growth was zero, but then quarter 3 surprised with a return to robust growth of 0.6% before moving back into negative territory (-0.3%) in quarter 4. The year finished with prospects for the UK economy being decidedly downbeat due to a return to negative growth in the EU in quarter 4, our largest trading partner, and a sharp increase in world oil prices caused by Middle East concerns. However, there was also a return of some economic optimism for growth outside the EU and dovish comments from the major western central banks: the Fed in America may even be considering a third dose of quantitative easing to boost growth.

8.4 UK CPI inflation started the year at 4.5% and peaked at 5.2% in September. The fall out of the January 2011 VAT increase from the annual CPI figure in January 2012 helped to bring inflation down to 3.6%, finishing at 3.5% in March. Inflation is forecast to be on a downward trend to below 2% over the next year.

The Monetary Policy Committee agreed an increase in quantitative easing (QE) of £75bn in October 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. The MPC then agreed another round of £50bn of QE in February 2012 to counter the negative impact of the EU debt and growth crisis on the UK.

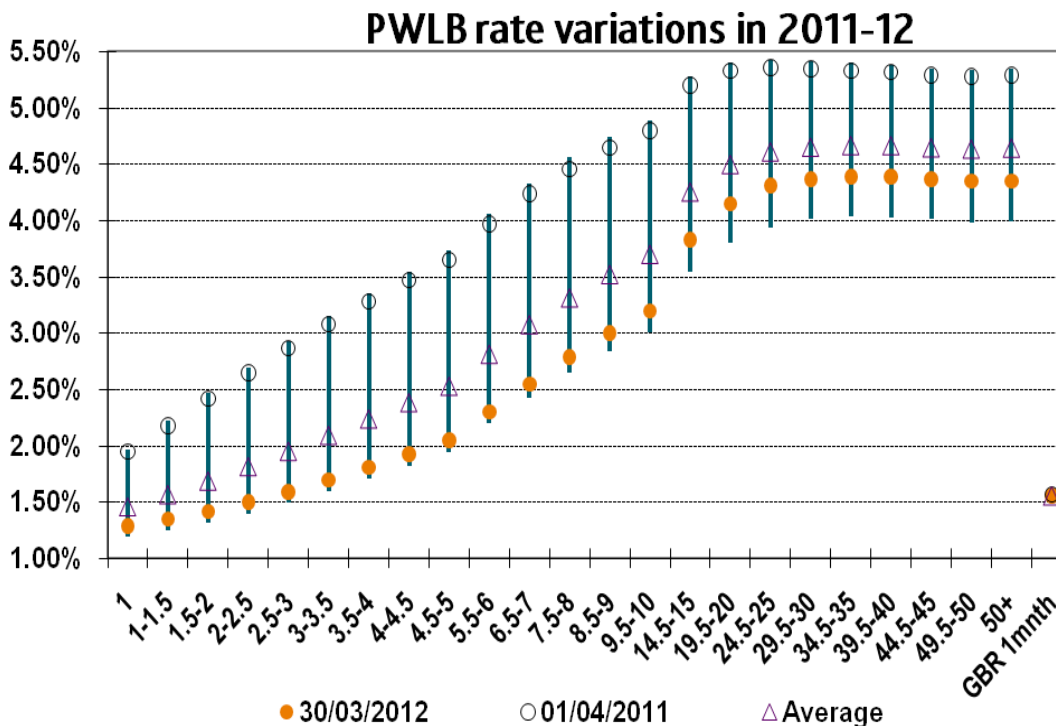
8.5 Gilt yields fell for much of the year, until February, as concerns continued building over the EU debt crisis. This resulted in safe haven flows into UK gilts which, together with the two UK packages of QE during the year, combined to depress PWLB rates to historically low levels.

8.6 Bank Rate was unchanged at 0.5% throughout the year while expectations of when the first increase would occur were steadily pushed back until the second half of 2013 at the earliest. Deposit rates picked up in the second half of the year as competition for cash increased among banks.

8.7 Risk premiums were also a constant factor in raising money market deposit rates for periods longer than 1 month. Widespread and multiple downgrades of the credit ratings of many banks and sovereigns, continued Euro zone concerns, and the significant funding issues still faced by many financial institutions, meant that investors remained cautious of longer-term commitment.

9. Borrowing Rates in 2011/12

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 2011/12 for 1 to 50 years									
	1	1.5-2	2.5-3	3.5-4	4.5-5	9.5-10	24.5-25	49.5-50	1 month variable
01/04/2011	1.950%	2.420%	2.870%	3.280%	3.650%	4.800%	5.360%	5.280%	1.570%
31/03/2012	1.290%	1.420%	1.590%	1.810%	2.050%	3.200%	4.310%	4.350%	1.560%
HIGH	1.970%	2.470%	2.930%	3.350%	3.730%	4.890%	5.430%	5.340%	1.590%
LOW	1.190%	1.320%	1.500%	1.710%	1.940%	3.010%	3.940%	3.980%	1.560%
Average	1.466%	1.693%	1.958%	2.243%	2.533%	3.702%	4.610%	4.635%	1.561%
Spread	0.780%	1.150%	1.430%	1.640%	1.790%	1.880%	1.490%	1.360%	0.030%
High date	06/04/2011	06/04/2011	06/04/2011	06/04/2011	11/04/2011	11/04/2011	11/04/2011	11/04/2011	05/04/2011
Low date	29/12/2011	30/12/2011	30/12/2011	27/02/2012	27/02/2012	30/12/2011	18/01/2012	30/11/2011	15/04/2011

10. Borrowing Outturn for 2011/12

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

Start Date	Lender	Principle	Period	Rate
29/02/2012	Worcestershire Council	£1,900,000	6 Days	0.28%
29/02/2012	South Lanarkshire Council	£5,000,000	6 Days	0.30%
29/03/2012	Coventry City Council	£3,500,000	14 Days	0.35%
29/03/2012	Rhondda Cynon Taff CBC	£4,000,000	14 Days	0.35%
30/03/2012	Caerphilly CBC	£1,000,000	31 Days	0.40%
30/03/2012	Worcestershire Council	£3,000,000	14 Days	0.35%

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

10.3 Rescheduling – No loans were rescheduled during 2011/12

11. Investment Rates in 2011/12

11.1 The tight monetary conditions following the 2008 financial crisis continued through 2011/12 with little material movement in the shorter term deposit rates.

11.2 Overlaying the relatively poor investment returns was the continued counterparty concerns, most evident in the Euro zone sovereign debt crisis which resulted in rescue packages for Greece, Ireland, Portugal, and latterly Spain

Money market investment rates 2011/12						
	Overnight	7 Day	1 Month	3 Month	6 Month	1 Year
01/04/2011	0.43688	0.45625	0.49563	0.69563	1.00313	1.47750
31/03/2012	0.43188	0.45719	0.57100	0.90188	1.22063	1.73806
High	0.54625	0.50531	0.65288	0.96456	1.27063	1.77175
Low	0.43000	0.45625	0.49563	0.69438	0.97625	1.45000
Average	0.44868	0.48009	0.56246	0.81756	1.11025	1.59673
Spread	0.11625	0.04906	0.15725	0.27018	0.29438	0.32175
Date	30/06/2011	30/12/2011	11/01/2012	12/01/2012	25/01/2012	25/01/2012
Date	14/03/2012	01/04/2011	01/04/2011	12/04/2011	11/06/2011	22/06/2011

12. Investment Outturn for 2011/12

- 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 March 2011. 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 term 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 2011 £m	31 March 2012 £m
Balances and Earmarked Reserves	55.240	57.917
Provisions	9.068	2.691
Usable capital receipts	10.952	9.617
Total	75.260	68.557

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
101,891	1,091	1.071%	0.817%

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

The Investment return excluding Icelandic related bank investments would be 1.217% (on an average investment of £89.656m). The benchmark for funds managed in house is the 3 month LIBID un compounded. 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. The original budget assumption allowed for £86m average investment at a rate of return of 1% giving £860,000 interest income.

13. Performance Measurement

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 2011/12 were set out in the Annual Treasury Strategy approved by Council in March 2011.

14. Icelandic Bank Defaults

14.1 As at the 31st March 2012 the Authority had the following investments frozen in Icelandic banks:

Bank Name	Balance Remaining £m
Glitnir Bank	0
Heritable Bank	2.790
KSF	1.056
Landsbanki	4.131
Total	7.977

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.

15. Recommendation

It is recommended that Members note the 2011/12 treasury management function performance as set out in this report including the actual 2011/12 prudential and treasury indicators.

List of Background Papers

Treasury Management Closing Files 2011/12
Sector Treasury Management Templates

Appendices

Appendix 1 – Prudential Indicators

Wards Affected

All

Officer Contact

For further information on this report item, please contact: -

Mr. Hywel Jenkins - Head of Financial Services

Tel. No. 01639 763646

E-mail: h.jenkins@npt.gov.uk

Mr. Huw Jones – Chief Accountant (Capital and Exchequer)

Tel. No. 01639 763575

E-mail: h.jones@npt.gov.uk

Mr. Ross Livingstone – Senior Accountant

Tel. No. 01639 763590

E-mail: r.livingstone@npt.gov.uk

COMPLIANCE STATEMENT

ANNUAL TREASURY MANAGEMENT REPORT 2011/12

Implementation of Decision

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

Sustainability Appraisal

Community Plan Impacts

Economic Prosperity	-	Positive
Education & Lifelong Learning	-	Positive
Better Health & Well Being	-	No impact
Environment & Transport	-	Positive
Crime & Disorder	-	No impact

Other Impacts

Welsh Language	-	No impact
Sustainable Development	-	Positive
Equalities	-	Positive
Social Inclusion	-	Positive

Consultation

There is no requirement under the Constitution for external consultation on this item.

PRUDENTIAL INDICATORS

PRUDENTIAL INDICATORS	2010/11 Actual	2011/12 Original Estimate	2011/12 Revised Estimate	2011/12 Actual
	£'000	£'000	£'000	£'000
Capital Expenditure				
Non – HRA	36,776	71,808	78,366	74,324
HRA	6,940	-	-	1,801
Ratio of financing costs to net revenue stream	%	%	%	%
Non - HRA	6.51	6.89	6.96	6.54
HRA	8.34	-	-	-
	£'000	£'000	£'000	£'000
Non HRA – In year borrowing requirement	4,010	11,888	12,809	8,789
HRA	-	-	-	-
	£'000	£'000	£'000	£'000
Capital Financing Requirement as at 31st March				
Non – HRA	188,944	199,968	200,756	197,733
Incremental impact of capital investment decisions	£ p	£ p	£ p	£ p
Increase in council tax (Band D) per annum	7.92	22.36	26.18	10.71
Increase in average housing rent per week (All of the capital expenditure is funded by Grant)	-	-	-	-

NOTE – In 2011/12 the HRA capital expenditure was funded by cash balances brought forward from the previous financial year.

PRUDENTIAL INDICATORS

TREASURY MANAGEMENT INDICATORS	2010/11 Actual	2011/12 Original Estimate	2011/12 Revised Estimate	2011/12 Actual
	£'000	£'000	£'000	£'000
Authorised Limit for External Debt:				
Borrowing	280,671	268,396	293,480	268,396
Other Long Term Liabilities	-	-	-	-
TOTAL	280,671	268,396	293,480	268,396
Operational Boundary for External Debt:				
Borrowing	260,671	248,396	273,480	248,396
Other Long Term Liabilities	-	-	-	-
TOTAL	260,671	248,396	273,480	248,396
External Debt (Gross)	174,815	185,599	173,818	173,818
Less Investments	(96,452)	(76,000)	(70,000)	(90,507)
Net Borrowing Position	78,363	109,599	103,818	83,311

NOTE – The reduction in borrowing from 2010/11 to 2011/12 is as a result of the debt repayment rising from the transfer of the former HRA to NPT Homes.

PRUDENTIAL INDICATORS

Maturity Structure of Fixed Rate Borrowing During 2011/12	2010/11 Actual	2011/12 Original Estimate		2011/12 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	2	40	0	7
5 to 10 years	13	60	0	16
10 years and above	83	100	15	75

SECTION B – MATTERS FOR INFORMATION

ITEM 5

TREASURY MANAGEMENT MONITORING 2012/13

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 29th August 2012.

	Equal Instalments of Principal		Annuity		Maturity	
	Previous 10 Jul 12	Current 29 Aug 12	Previous 10 Jul 12	Current 29 Aug 12	Previous 10 Jul 12	Current 29 Aug 12
	%	%	%	%	%	%
5-5.5 years	1.34	1.24	1.34	1.24	1.82	1.70
10-10.5 years	1.82	1.70	1.83	1.72	2.77	2.65
20-20.5 years	2.77	2.65	2.86	2.74	3.73	3.62
35-35.5 years	3.56	3.45	3.74	3.64	4.14	4.10
49.5-50 years	3.95	3.87	4.10	4.05	4.14	4.08

3. General Fund Treasury Management Budget

The following table sets out the treasury management budget for 2012/13 and consists of a gross budget for debt charges i.e. repayment of debt principal and interest, and interest returns on investment income.

A comprehensive review has been carried out of all Council loan profiles and investments. This work has highlighted that budgetary savings can be achieved for 2012/13 at £1.3m of which £0.8m will be incorporated as base budget savings into future years.

	2012/13 Original Budget £'000
Debt Charges	17,047
Investment Income	
- Total	-780
- Allocated to other funds	170
- General Fund	-610
Net General Fund	16,437

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

4. Borrowing

No new loans have been arranged to date and this is in line with the Treasury Management Strategy for 2012/13. However, it is possible that new external borrowing will be entered into during the second half of 2012/13 if interest rates are deemed to be appropriate. This is in line with the Treasury Management Strategy approved by Council in March 2012.

5. Investment Income

In line with the Council's Investment Strategy, the 2012/13 Budget for investment income is £710,000 and income generated to date totals £0.9m. Members should note that all investments are classified as 'specified' i.e. up to 12 months and are currently with the major banks including HSBC, Barclays, Lloyds Group, Bank Santander, Clydesdale, and RBS. The Council also has an investment with Lancashire City Council and The Greater London Authority.

It is now expected that the 2012/13 Investment Income will be circa £1.04m and this increase has been incorporated into Section 3 above.

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

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	6,818	2,182
KSF	3,000	2,253	747
Landsbanki Islands HF	6,000	2,632	3,368
	20,000	13,703	6,297

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

Table 2 – Investments Held in Escrow Accounts – Icelandic Kroner

Bank	Investment (Sterling Equivalent)	Amount Repaid	Outstanding Investment
	£'000	£'000	£'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 3%.

There have been no changes to report on the Icelandic Investments since the last report.

List of Background Papers

Treasury Management Files

PWLB Notice Number

Appendix

None

Wards Affected

All

Officer Contact

For further information on this report item, please contact:

Mr. Hywel Jenkins - Head of Financial Services

Tel. No. 01639 763646

E-mail: h.jenkins@npt.gov.uk

Mr Huw Jones – Chief Accountant – Capital and Exchequer

Tel No: 01639 763575

E-mail: h.jones@npt.gov.uk

Mr Ross Livingstone – Senior Accountant

Tel No: 01639 763590

Email: r.livingstone@npt.gov.uk