ITEM NO: 21.00

TITLE	**Treasury Management Annual Report 2011/12**
FOR CONSIDERATION BY	Audit Committee on 26 September 2012
WARD	None Specific
STRATEGIC DIRECTOR	Graham Ebers, Strategic Director Resources
LEAD MEMBER	Anthony Pollock, Executive Member for Finance

OUTCOME / BENEFITS TO THE COMMUNITY

Maximising our investment returns to fund Council services whilst protecting investment security and effectively managing our debt. Net benefit to the community of £445,000 from overachievement on treasury management (interest on balances and debt charges) and a substantial return forecast on Icelandic investments.

RECOMMENDATION

The Audit Committee is asked to note

1) the Treasury Management Annual Report for 2011/12; and

2) note the 2011/12 performance against the prudential indicators

SUMMARY OF REPORT

The 'Treasury Management Annual Report' is a requirement of the Council's reporting procedures. It covers the treasury activity during 2011/12 and the actual Prudential Indicators for 2011/12.

The report highlights the Council's treasury position as at 31 March 2012, sets out the treasury decisions taken during 2011/12 and shows that we have complied with our strategy and the prudential indicators that were set prior to the financial year (with the exception of fixed interest rate exposure due to HRA self financing).

The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are found in Appendix C. Other prudential and treasury indicators are to be found in the main body of this report. The Strategic Director of Resources also confirms that borrowing was only undertaken for a capital purpose and the statutory borrowing limit (the authorised limit), was not breached.

The financial year 2011/12 continued the challenging investment environment of previous years, namely low investment returns and continuing heightened levels of counterparty risk.

As at 31st March 2012 the General fund external debt was £46,464,000 this compared to £47,588,00 as at 31st March 2011. The reduction is due to the splitting of debt between HRA and the general fund (known as De-pooling) undertaken as part of the HRA self financing process. In previous years both the HRA and general fund debt has been accounted for as one loan pool (ie, all debt was treated as general fund) and the HRA was charged for a share of interest based on its Capital Financing Requirement (CFR).

The HRA External Debt as at 31st March 2012 was £87,718,000 compared to nil as at 31st March2011. The HRA has an internal loan of £8,874,000. The increase in external debt is due to the self financing settlement paid in 2011/12. The table below shows the breakdown of debt:

HRA Debt Break Down	31-Mar-12 Actual £'000
PWLB Loan for HRA	86,594
HRA proportion of original loans before HRA self financing	1,124
Sub total of external funding	**87,718**
General Fund Loan	8,874
Total Loans	**96,592**

As at 31st March 2012 the council has investments totalling £43,439,000 compared to £45,614,000 as at 31st March 2011.

Housing Finance Reform

The implementation of housing finance reform at the end of 2011-12 abolished the housing subsidy system financed by central government. Consequently, all housing debt has been reallocated nationally between housing authorities. The result of this reallocation is that the Council paid, at the end of the year, a sum to the Department of

Communities and Local Government of £95,468,000 which was enabled through a corresponding increase in borrowing powers.

Background

The full Treasury Annual report for 2011/12 is shown in Appendix A.
The Councils Counter party List at 31st March 2012 is shown in Appendix B.
The Councils Prudential indicators are shown in Appendix C.

FINANCIAL IMPLICATIONS OF THE RECOMMENDATION

	How much will it Cost/ (Save)	Is there sufficient funding – if not quantify the Shortfall	Revenue or Capital?
Current Financial Year (Year 1)	£0	Yes	Revenue and Capital
Next Financial Year (Year 2)	£0	Yes	Revenue and Capital
Following Financial Year (Year 3)	£0	Yes	Revenue and Capital

Other financial information relevant to the Recommendation/Decision
Further information on the Council's investments and borrowings including the Councils interest income and expenditure can be found in the 2011/12 Statement of Accounts, which will be approved by the Strategic Director of Resources by the 30th June 2012. The statement of accounts also shows the council's net overachievement on treasury management of £445,000 against its interest on balances and debt charges budget at the end of the year. Further information about the council's borrowing and investment plans for the next three years can be found in the 2012-13 Medium Term Financial Plan.

Cross-Council Implications
None

List of Background Papers
None

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Date 16 July 2012	**Version No.** 2.

Appendix A

WOKINGHAM BOROUGH COUNCIL

WOKINGHAM
BOROUGH COUNCIL

TREASURY MANAGEMENT

ANNUAL REPORT 2011/12

1.0 Introduction

The Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of 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).

1.1 During 2011/12 the Executive has received the following reports:

- An annual treasury strategy at its meeting on the 22nd February 2011.
- A mid year treasury update report at its meeting on the 30th November 2011.

This report provides the annual review following the end of the year describing the activity compared to the strategy.

1.2 This report summarises:

- Capital activity during the year;
- The impact of this activity on the Council's underlying indebtedness (the Capital Financing Requirement);
- Reporting of the required prudential and treasury indicators;
- The overall treasury position identifying how the Council has borrowed in relation to this indebtedness, and the impact on investment balances;
- A summary of interest rate movements in the year;
- Detailed debt activity;
- Detailed investment activity.

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

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,
- Capital expenditure which will give rise to a borrowing need.

The actual capital expenditure forms one of the prudential indicators. The table below shows the actual capital expenditure and the value financed by Borrowing and the value financed by WBC receipts and other funding.

General Fund	2010/11 Actual £'000	2011/12 Estimate £'000	2011/12 Actual £'000
Capital expenditure	35,186	23,323	24,190
Financed by WBC in year	28,309	17,374	21,449
Unfinanced capital expenditure (Borrowing Need)	6,877	5,949	2,741

HRA	2010/11 Actual £'000	2011/12 Estimate £'000	2011/12 Actual £'000
Capital expenditure	2,874	4,989	98,255
Financed in year	2,874	4,989	2,787
Unfinanced capital expenditure (Borrowing Need)	0	0	95,468

3.0 The Council's Overall Borrowing Need

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 above tables), and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the Corporate Finance Team 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.

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.

The total CFR can also be reduced by:

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

The Council's 2011/12 MRP Policy was approved by the Council as part of the Treasury Management Strategy Report on 22nd February 2011.

The Council's CFR's (Both General Fund and HRA) for the year is shown below, and represents a key prudential indicator. It includes Public Finance Initiatives and leasing schemes on the balance sheet, which increase the Council's borrowing need. No borrowing is actually required against these schemes as a borrowing facility is included within the contract.

CFR: General Fund	31-Mar-11 Actual £'000	31-Mar-12 Original £'000	31-Mar-12 Actual £'000
Opening balance	79,916	83,966	83,747
Add unfinanced capital expenditure (as above)	6,877	5,949	2,741
Less MRP	(2,786)	(2,620)	(3,204)
Less PFI & finance lease repayments	(260)	(279)	(279)
Closing Balance	**83,747**	**87,016**	**83,005**

CFR: HRA	31-Mar-11 Actual £'000	31-Mar-12 Original £'000	31-Mar-12 Actual £'000
Opening balance	1,171	1,171	1,124
Add unfinanced capital expenditure (as above)	0	0	0
Add adjustment for HRA reform	0	0	95,468
Less Voluntary MRP	(47)	0	0
Less PFI & finance lease repayments	0	0	0
Closing balance	**1,124**	**1,171**	**96,592**

3.1 **Housing finance reform**

Housing finance reform has abolished the housing subsidy system financed by central government and consequently, all housing debt has been reallocated nationally between housing authorities. The result of this reallocation is that this Council has made a capital payment to the Department of Communities and Local Government of £95,468,000. This has resulted in an increase in the HRA CFR and total borrowing to £96,592,284 at the end of the year. This is financed as in table below:

HRA Debt Break Down	31-Mar-12 Actual £'000
PWLB Loan for HRA	86,594
HRA proportion of original loans before HRA self financing	1,124
Sub total of external funding	**87,718**
General Fund Loan	8,874
Total Loans	**96,592**

3.2 **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 2011/12 and 2012/13 from financing the capital programme. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs. The table below highlights the Council's net borrowing position against the CFR. The Council has complied with this prudential indicator.

	31-Mar-11 Actual £'000	31-Mar-12 Original £'000	31-Mar-12 Actual £'000
Gross Borrowing	47,588	55,588	134,182
Investments	(45,610)	(50,000)	(43,307)
Net Borrowing	1,978	5,588	90,875
Total CFR (GF and HRA)	84,871	88,817	179,597

The authorised limit - the authorised limit is the "affordable borrowing limit" required by section 3 of the Local Government Act 2003. The Council does not have the power to borrow above this level. The table below demonstrates that during 2011/12 the Council has maintained gross borrowing within its authorised limit.

	31-Mar-11 Actual £'000	31-Mar-12 Original £'000	31-Mar-12 Actual £'000
Gross Borrowing	47,588	55,588	134,182
Authorised Limit	86,000	104,000	202,000
Operational Boundary	80,000	96,000	190,000

The operational boundary – the operational boundary is set at a level that provides flexibility above 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 financing costs as a proportion of net revenue stream - this indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

Ratio of Financing Costs to net revenue stream:	2011/12 Budget £'000	2011/12 Actual £'000
Non-HRA	4.16%	3.56%
HRA	1.97%	1.84%

Net Borrowing & Capital Financing Requirement:	2011/12 Budget £'000	2011/12 Actual £'000
Net Borrowing	5,588	90,875
Capital Financing Requirement (CFR)	88,817	179,597
Is Net Borrowing less than or equal to CFR?	Yes	Yes

4.0 Treasury Position as at 31 March 2012

The Council's debt and investment position is organised by the Strategic Director of Resources 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 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:

General Fund Borrowing	31-Mar-11 Principal £'000	Average Rate/ Return	31-Mar-12 Principal £'000	Average Rate/ Return
Fixed rate funding:				
-PWLB	23,588	4.50%	23,031	4.50%
-Market				
Variable rate funding:				
-PWLB	0	0.00%	0	0.00%
-Market	24,000	4.17%	23,433	4.17%
Total debt	**47,588**	**4.34%**	**46,464**	**4.34%**
CFR	83,747		83,005	
Over/ (under) borrowing	(36,159)		(36,541)	

HRA Borrowing	31-Mar-11 Principal £'000	Average Rate/ Return	31-Mar-12 Principal £'000	Average Rate/ Return
Fixed rate funding:				
-PWLB	0	0.00%	87,151	3.02%
-Market	0	0.00%	0	0.00%
Variable rate funding:				
-PWLB	0	0.00%	0	0.00%
-Market	0	0.00%	567	3.82%
Total debt	**0**	**0.00%**	**87,718**	**3.42%**
CFR	1,124		96,592	
Over/ (under) borrowing	(1,124)		(8,874)	

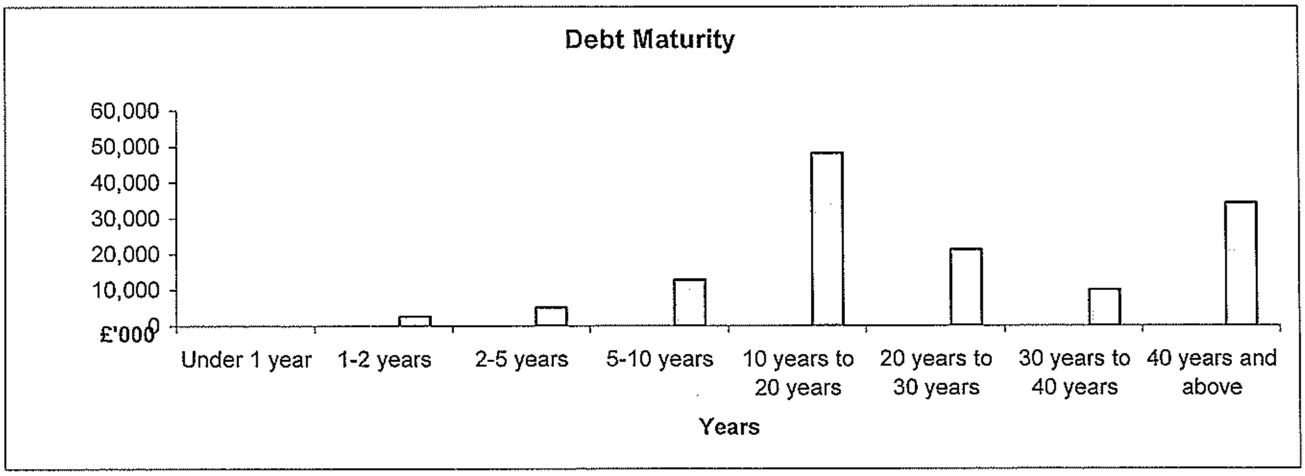
Investments Principal	31-Mar-11 Principal £'000	31-Mar-12 Principal £'000
- in house	17,445	17,937
- with managers		
Scottish Widows Investment Partnership	13,031	9,264
Royal London Asset Management	0	16,106
Investec	15,134	0
Total investments	45,610	43,307

Investments: Returns	31-Mar-12 Estimated £'000	31-Mar-12 Estimated %	31-Mar-12 Actual £'000	31-Mar-12 Actual %
- in house	375	1.50%	303	0.97%
- with managers	375	1.50%	356	1.29%
Total investments	750	1.50%	658	1.13%

4.1 <u>**The maturity structure of the debt portfolio was as follows**</u>:

General Fund maturity structure of debt portfolio	31-Mar-11 Principle £'000	31-Mar-12 Principle £'000	Percentage
Under 1 year	0	0	0%
1-2 years	0	0	0%
2-5 years	0	0	0%
5-10 years	24	0	0%
10 years to 20 years	976	976	2%
20 years to 30 years	2,400	2,343	5%
30 years to 40 years	10,053	9,947	21%
40 years and above	34,135	33,197	71%
Total Debt	47,588	46,464	100%

HRA maturity structure of debt portfolio	31-Mar-11 Principle £'000	31-Mar-12 Principle £'000	Percentage
Under 1 year	0	0	0%
1-2 years	0	2,700	3%
2-5 years	0	5,226	6%
5-10 years	24	12,791	15%
10 years to 20 years	0	47,109	54%
20 years to 30 years	57	18,849	21%
30 years to 40 years	106	106	0%
40 years and above	938	938	1%
Total Debt	1,124	87,718	100%



4.2 **The maturity structure of the investment portfolio was as follows:**

	31-Mar-12 Actual £'000
Less than One Year	37,481
Between One and Two Years	4,230
Between Two and Ten Years	1,596
Between Eleven and Twenty Years	0
Between Twenty One and Thirty Years	0
Between Thirty One and Forty Years	0
Total Investments	**43,307**

4.3 **Investment exposure to fixed and variable rates was as follows:**

	31-Mar-11 Actual £'000	31-Mar-12 Actual £'000
Fixed rate (principal or interest)	23,624	25,340
Variable rate (principal or interest)	21,987	17,967

5.0 The Strategy for 2011/12

The expectation for interest rates within the strategy for 2011/12 anticipated a low but rising Bank Rate (starting in quarter 4 of 2011) with similar gradual rises in medium and longer term fixed borrowing rates over 2011/12. Variable or short-term rates were expected to be the cheaper form of borrowing over the period. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates. In this scenario, the treasury strategy was to postpone borrowing to avoid the cost of holding higher levels of investments and to reduce counterparty risk.

The strategy adopted in the original Treasury Management Strategy Report for 2011/12 approved by the Council on 22 February 2011 was subject to revision during the year due to HRA self finance.

6.0 The Economy and Interest Rates

The original expectation for 2011/12 was that Bank Rate would start gently rising from quarter 4. However, GDP growth in the UK was disappointing during the year under the weight of the UK austerity programme, a lack of rebalancing of the UK economy to exporting and weak growth in our biggest export market - the EU. The EU sovereign debt crisis grew in intensity during the year until February when a refinancing package was eventually agreed for Greece. This has again become an issue, as Greek politicians failed to agree a new government following recent parliamentary elections. In the UK, growth resulted in the Monetary Policy Committee increasing quantitative easing (QE) by £75bn in October and another £50bn in February. The Bank Rate therefore ended the year unchanged at 0.5% while CPI inflation peaked in September at 5.2% but then fell to 3.4% in February, with further falls expected to below 2% over the next two years.

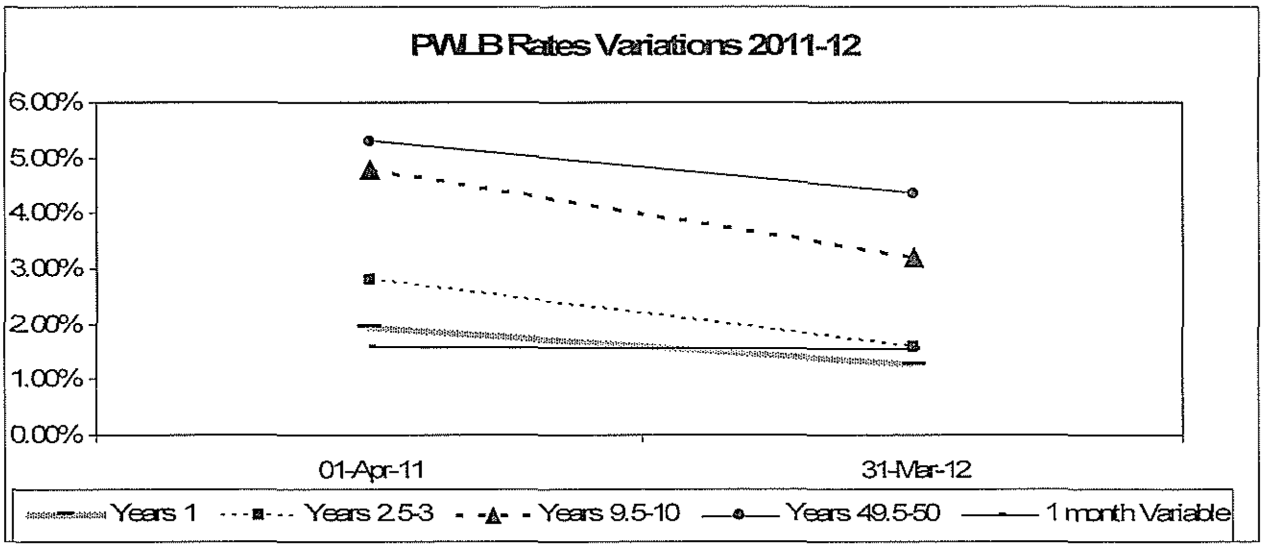
Gilt yields fell for much of the year, until February, as concerns continued building over the EU debt crisis. This resulted in safe haven flows into UK gilts which, together with the two UK packages of QE during the year, combined to depress PWLB rates to historically low levels.

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 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.

7.0 Borrowing Rates in 2011/12

The graphs and table for PWLB maturity rates below show, for a selection of maturity periods, the high and low points in rates, the average rates, spreads and individual rates at the start and the end of the financial year.

PWLB Borrowing Rates	Years				1 month Variable
	1	2.5-3	9.5-10	49.5-50	
01-Apr-11	1.95%	2.80%	4.80%	5.28%	1.57%
31-Mar-12	1.29%	1.59%	3.20%	4.35%	1.56%
High	1.97%	2.93%	4.89%	5.34%	1.59%
Low	1.90%	1.50%	3.01%	3.98%	1.56%
Average	1.47%	1.96%	3.70%	4.64%	1.56%
spread	0.78%	1.43%	1.88%	1.36%	0.03%
High date	06/04/2011	06/04/2011	11/04/2011	11/04/2011	05/04/2011
Low date	29/12/2011	30/12/2011	30/12/2011	30/11/2011	15/04/2011



8.0 Borrowing Outturn for 2011/12

No Additional borrowing for the general fund was required in 2011-12. As all borrowing requirements were managed through the cash flow.

8.1 Housing finance reform

On 28th March 2012 the Council borrowed £86,594,151 at an average rate of 2.55% in order to make a payment to the Department of Communities and Local Government in respect of housing debt it was taking on under self financing. An internal loan for £8,873,978 has been taken out from the general fund to help fund the total payment to Department of Communities and Local Government of £95,468,000.

8.2 **Rescheduling**

The Council rescheduled the loans into two pools as shown below:

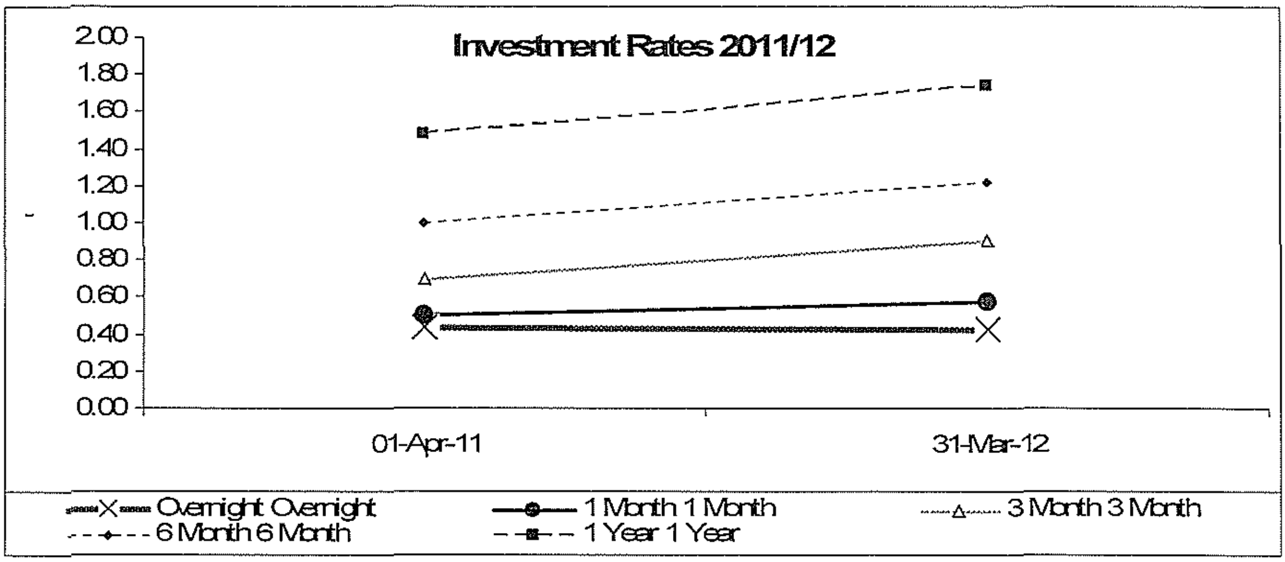
Borrowing	31-Mar-12 HRA loans £'000	Average Rate	31-Mar-12 GF loans £'000	Average Rate
-PWLB	87,151	2.55%	23,031	4.50%
-Market	567	4.17%	23,433	4.17%
Total debt	87,718	3.36%	46,464	4.34%

9.0 Investment Rates in 2011/12

The tight monetary conditions following the 2008 financial crisis continued through 2011/12 with little material movement in the shorter term deposit rates. However, one month and longer rates rose significantly in the second half of the year as the Euro zone crisis grew. The European Central Bank's actions to provide finance to EU banks eased liquidity pressures in the EU and investment rates eased back somewhat in quarter 1 of 2012. This action has also given EU banks time to strengthen their balance sheets and liquidity positions on a more permanent basis. The Bank Rate remained at its historic low of 0.5% throughout the year while market expectations of the imminence of the start of monetary tightening was gradually pushed further and further back during the year to the second half of 2013 at the earliest.

Overlaying the relatively poor investment returns were the continued counterparty concerns, most evident in the Euro zone sovereign debt crisis which resulted in a second rescue package for Greece in quarter 1 of 2012. Concerns extended to the potential fallout on the European banking industry if the crisis could have ended with Greece leaving the Euro and defaulting.

Money Market Investment rates 2011/12	Overnight	1 Month	3 Month	6 Month	1 Year
01-Apr-11	0.44	0.50	0.70	1.00	1.48
31-Mar-12	0.43	0.57	0.90	1.22	1.74
High	0.55	0.63	0.96	1.27	1.77
Low	0.43	0.50	0.69	0.98	1.45
Average	0.45	0.56	0.82	1.11	1.60
spread	0.12	0.16	0.27	0.29	0.32
High date	30/06/2011	11/01/2012	12/01/2012	25/01/2012	25/01/2012
Low date	14/03/2012	01/04/2011	12/04/2011	11/06/2011	22/06/2011



10.0 **Investment Outturn 2011/12**

10.1 **Investment Policy**

The Council's investment policy is governed by Communities Local Government guidance, which has been implemented in the annual investment strategy approved by the Council on 22nd February 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.).

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

10.2 **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 as follows, and met the expectations of the budget:

General Fund Balance Sheet Resources	31-Mar-11 £'000	31-Mar-12 £'000
Earmarked reserves	11,488	16,277
General Fund Balances	9,322	9,272
Provisions	5,492	3,510
Usable capital receipts	9,721	7,131
Total	36,023	36,190

10.3 **Investments held by fund managers**

The Council has appointed 2 external fund managers to invest part of its cash balances. The performance of the managers against the benchmark return was:

Fund Manager	Investments Held £'000	Return %	Benchmark*
Scottish Widows Investment Partnership	9,264	1.36%	0.48%
Royal London Asset Management	16,106	0.97%	0.48%
Total debt	25,370	1.17%	0.48%

This compares with a budget assumption of average investment balances of £12,332,586 at 0.49% investment return. Performance during the year has been measured on quarterly basis, as demonstrated on the next page.

Borrowing	Performance QTR-1 %	Performance QTR-2 %	Performance QTR-3 %	Performance QTR-4 %
Scottish Widows Investment Partnership	0.12%	0.23%	0.23%	0.37%
Royal London Asset Management	0.16%	0.19%	0.28%	0.72%
Total debt	0.14%	0.21%	0.26%	0.54%

Investments held by the Council - the Council maintained an average balance of £25,000,000 of internally managed funds. The internally managed funds earned an average rate of return of 0.97%. This is reduced from an average rate of 1.5% predicted in the treasury management strategy due to the current economic climate.

11.0 Performance Measurement

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 4). The Council's performance indicators were *set out in the Annual Treasury Management Strategy.*

Ave rate of return on investment	1st Qtr %	2nd Qtr %	3rd Qtr %	4th Qtr %
Scottish Widows Investment Partnership	0.12%	0.23%	0.23%	0.37%
Royal London Asset Management	0.16%	0.19%	0.28%	0.72%
In House	0.27%	0.25%	0.30%	0.20%
Total	0.20%	0.23%	0.26%	0.40%

Level of investment	1st Qtr £'000	2nd Qtr £'000	3rd Qtr £'000	4th Qtr £'000
Scottish Widows Investment Partnership	10,003	11,024	16,059	16,106
Royal London Asset Management	13,074	13,107	17,150	9,264
In House	35,357	36,836	32,561	17,937
Total	58,434	60,967	65,770	43,307

Market loans as a proportion of overall debt	1st Qtr %	2nd Qtr %	3rd Qtr %	4th Qtr %
Market loans as a proportion of overall debt	0.49	0.49	0.49	0.18

12.0 Risks

The Council has complied with all of the relevant statutory and regulatory requirements which limit 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.

The Council is aware of the risks of passive management of the treasury portfolio and, with the support of Sector, the Council's advisers, has proactively managed the debt over the year.

Shorter-term variable rates and likely future movements in these rates predominantly determine the Council's investment return. These returns can therefore be volatile and, whilst the risk of loss of principal is minimised through the lending list, accurately forecasting returns can be difficult.

13.0 Icelandic Bank Defaults

Wokingham Borough Council currently has the following investment(s) frozen in Icelandic banks

- Heritable £3,000,000,
- Landsbanki £2,000,000.

The Icelandic Government has stated its intention to honour all its commitments as a result of their banks being placed into receivership. The U.K. Government is working with the Icelandic Government to help bring this about. The Local Government Association is co-ordinating the efforts of all UK authorities with Icelandic investments. At the current time, the process of recovering assets is still ongoing with the administrators. In the cases of Heritable Bank plc the administrators have made a number of dividend payments to date, with further payments and updates anticipated during 2012/13. Investments outstanding with the two Iceland –domiciled banks (Glitnir Bank hf and Landsbanki Islands hf) have been subject to decisions of the Icelandic Courts. Following the successful outcome of legal test cases in the Icelandic Supreme Court in late-2011, the administrators have now commenced the process of dividend payments in respect of both of these banks.

The varying maturity dates and interest rates as follows:

Bank	Date Invested	Maturity Date	Amount Invested £,000	Interest Rate	Carrying Amount £,000	Total Impairment £'000
Heritable (2376)	01/11/2006	03/11/2008	2,000	5.45%	408	232
Heritable (2598)	01/09/2008	28/08/2009	1,000	6.20%	195	125
Landsbanki (2587)	01/08/2008	27/02/2009	1,000	6.05%	776	(66)
Landsbanki (2599)	01/09/2008	28/08/2009	1,000	5.50%	820	(110)
Total			5,000		2,199	181

The amounts and timing of payments to depositors such as the authority will be determined by the administrators / receivers. The current situation with regards to recovery of the sums deposited varies between each institution. Based on the latest information available the authority considers that it is appropriate to consider an impairment adjustment for the deposits, and has taken the action outlined below. As the available information is not definitive as to the amounts and timings of future payments to be made by the administrators / receivers, it is likely that further adjustments will be made to the accounts in future years. The impairment has been calculated in line with FRS 25 and 26, however, in cash terms the Council currently expects to have recovered a total of **£4.769m** of the original £5m invested by December, 2018. The carrying amounts of the investments included in the Balance Sheet, have been calculated using the present value of the expected repayments, discounted using the investment's original interest date.

Heritable bank is a UK registered bank under Scottish law. The company was placed in administration on 7 October 2008. The current position on actual payments received and estimated future payouts is as shown in the table below and this council has used these estimates to calculate the impairment based on recovering 88p in the £. Recoveries are expressed as a percentage of the authority's claim in the administration, which includes interest accrued up to 6 October 2008.

Therefore in calculating the impairment the Council has made the following assumptions regarding timing of recoveries:

Date	Repayment (including accrued interest)	Cash Amount £000
Received to Date	67.90%	2,039
Apr-12	3.79%	118
Jul-12	3.50%	109
Oct-12	3.50%	109
Jan-13	3.50%	109
Apr-13	5.81%	181
	88.00%	2,664

Landsbanki Islands is an Icelandic entity. Following steps taken by the Icelandic Government in early October 2008 its domestic assets and liabilities were transferred to a new bank (new Landsbanki) with the management of the affairs of Old Landsbanki being placed in the hands of a resolution committee. The Icelandic Supreme Court decision granted UK local authorities priority status, the winding up board made a distribution to creditors in a basket of currencies in February 2012.

An element of the distribution is in Icelandic Kroner which has been placed in an escrow account in Iceland and is earning interest of 3.35%. This element of the distribution has been retained in Iceland due to currency controls currently operating in Iceland and as a result is subject to exchange rate risk, over which the Council has no control. The current position on estimated future payouts is as shown in the table below and this council has used these estimates to calculate the impairment based on recovering 100p in the £.

Date	Repayment (including accrued interest)	Cash Amount £000
Received to date	30.00%	579
Dec-12	8.00%	174
Dec-13	8.00%	174
Dec-14	8.00%	174
Dec-15	8.00%	174
Dec-16	8.00%	174
Dec-17	8.00%	174
Dec-18	22.00%	479
	100.00%	2,105

Counterparty Lists @ 31-Mar-2012

COUNTERPARTY LIMITS 30/03/2012 MAXIMUM OF £5m per Group	Country	Fitch Long Term Rating*	Individual Limit per LCD £000	Max Duration Months	Current Investment £000	Available Balance £000
Others						
Other Local Authorities	UK	AAA	5,000	36	0	5,000
Leeds City Council	UK	AAA	5,000	36	0	5,000
Salford City Council	UK	AAA	5,000	36	0	5,000
Newcastle City Council	UK	AAA	5,000	36	2,000	3,000
Nottingham City Council	UK	AAA	5,000	36	3,000	2,000
Birmingham City Council	UK	AAA	5,000	36	0	5,000
Lancashire County Council	UK	AAA	5,000	36	2,000	3,000
Debt Management Office (DMO)	UK	AAA	20,000	3	0	20,000
Money Market Funds						
Invesco Global MMF (was AIM)	UK	AAA	5,000	36	0	5,000
Deutsche Bank Sterling Fund (was Henderson)	Ireland	AAA	5,000	36	2,200	2,800
Royal Bank of Scotland MMF -Sterling Fund	UK	AAA	5,000	36	5,000	0
RBS Govt Back MMF	UK	AAA	5,000	36	1,500	3,500
BANKING GROUPS						
Nordea Group						
Nordea Bank Finland	Finland	AA-	3,000	12	0	3,000
Group Limit			**3,000**		**0**	**3,000**
HSBC Group						
HSBC Bank plc	UK	AA	3,000	12	0	3,000
INDIVIDUAL BANKS						
Bank of Nova Scotia	Canada	AA-	3,000	12	0	3,000
Royal Bank of Canada	Canada	AA	3,000	12	0	3,000
Toronto-Dominion Bank	Canada	AA-	3,000	12	0	3,000
Landwirtschaftliche Rentenbank	Germany	AAA	5,000	12	0	5,000
Clearstream Banking	Luxembourg	AA	3,000	12	0	3,000
Rabobank	Netherlands	AA	3,000	12	0	3,000
Bank Nederlandse Gemeenten	Netherlands	AAA	5,000	12	0	5,000
Development Bank of Singapore	Singapore	AA-	3,000	12	0	3,000
Oversea Chinese Banking Corp	Singapore	AA-	3,000	12	0	3,000
Close Brothers	UK	A	3,000	6	0	3,000
Bank of New York Mellon (International) Ltd	UK	AA-	3,000	12	0	3,000
Svenska Handelsbanken	Sweden	AA-	3,000	12	0	3,000
Building Societies						
Nationwide Building Society	UK	A+	2,000	3	0	2,000
Coventry Building Society	UK	A	2,000	3	0	2,000
Leeds Building Society	UK	A-	2,000	3	0	2,000

Banks/Building Societies no longer meeting criteria						
Cheshire Building Society (to 31/03/09)	UK		0		0	0
Progressive BS (to 31/03/09)	UK		0		0	0
Frozen Investments						
Heritable Bank			0		643	
Landsbanki			0		1,595	
TOTAL INVESTMENTS					**17,899**	
* GB = Government Backed						
** Barclays Investment 3+ months - dealt before change in max duration						
Monthly Counterparty Changes						
Building Society 3 months - following Sectors advice						
Standard Life Bank PLC removed 1/07/10						
BNP Paribas downgraded to AA- 1/07/10						
Credit Agricole removed 23/05/2011						
Credit Lyonnais removed 23/05/2011						

The figures in the table above are Principal values only, the amounts in the body of the report include accrued interest accounted for on the authority's balance sheet at year end.

Investments held by the external fund managers follow the criteria set out in the treasury management strategy over counterparty selection.

PRUDENTIAL INDICATORS

AFFORDABILITY	2011/12 Budget %	2011/12 Actual 1st Qtr %	2nd Qtr %	3rd Qtr %	4th Qtr %
Ratio of financing costs to net revenue stream					
Non-HRA	4.16%	3.77%	3.73%	3.56%	3.56%
HRA	1.97%	1.97%	1.97%	2.16%	1.84%

Capital Financing Costs Impact:	2011/12 Budget £p	2011/12 Actual 1st Qtr £p	2nd Qtr £p	3rd Qtr £p	4th Qtr £p
Estimate of Band D equivalent Council Tax	(21.31)	(21.31)	(21.31)	(19.05)	(18.56)
Estimate of ave increase of weekly housing rates	0.00	0.00	0.00	0.00	0.00

Net Borrowing & Capital Financing Requirement:	2011/12 Budget £'000	2011/12 Actual 1st Qtr £'000	2nd Qtr £'000	3rd Qtr £'000	4th Qtr £'000
Net Borrowing & Capital Financing Requirement:					
Net Borrowing	5,588	(10,847)	(13,379)	(18,182)	90,875
Capital Financing Requirement (CFR)	88,187	89,950	84,301	180,623	179,597
Is Net Borrowing less than or equal to CFR?	Yes	Yes	Yes	Yes	Yes

CAPITAL EXPENDITURE	2011/12 Budget £'000	2011/12 Actual 1st Qtr £'000	2nd Qtr £'000	3rd Qtr £'000	4th Qtr £'000
Estimate of capital expenditure to be incurred:					
Non-HRA	23,323	45,731	45,731	28,578	24,190
HRA	4,989	2,981	2,981	99,658	98,255
Total	28,312	48,712	48,712	128,236	122,445

Estimate of (CFR) at year end:	2011/12 Budget £'000	2011/12 Actual 1st Qtr £'000	2nd Qtr £'000	3rd Qtr £'000	4th Qtr £'000
Non-HRA	87,016	88,826	83,177	84,029	83,005
HRA	1,171	1,124	1,124	96,594	96,592
Total	88,187	89,950	84,301	180,623	179,597

EXTERNAL DEBT	2011/12 Budget £'000	2011/12 Actual 1st Qtr £'000	2nd Qtr £'000	3rd Qtr £'000	4th Qtr £'000
Authorised limit for external debt:					
Borrowing	202,000	47,588	47,588	47,588	134,182
Other long term liabilities	2,000				
Total	204,000	47,588	47,588	47,588	134,182
Operational boundary for external debt:					
Borrowing	190,000	47,588	47,588	47,588	134,182
Other long term liabilities	1,000				
Total	191,000	47,588	47,588	47,588	134,182

TREASURY MANAGEMENT	2011/12 Budget £'000	2011/12 Actual 1st Qtr £'000	2nd Qtr £'000	3rd Qtr £'000	4th Qtr £'000
Interest rate exposures:					
** Upper limit on fixed rate exposures - Debt Only	90,000	25,588	25,588	25,588	110,182
Upper limit on variable rate exposures - Debt Only	40,000	22,000	22,000	22,000	24,000
Interest rate exposures:					
Upper limit on fixed rate exposures - Investments Only	(80,000)	(24,843)	(29,199)	(37,620)	(25,340)
Upper limit on variable rate exposures - Investments Only	(40,000)	(33,592)	(31,768)	(28,150)	(17,934)
Interest rate exposures:					
Upper limit on fixed rate exposures - Net Position	10,000	745	(3,611)	(12,032)	84,842
Upper limit on variable rate exposures - net position	0	(11,592)	(9,768)	(6,150)	6,066
Net Borrowing Check		(10,847)	(13,379)	(18,182)	90,908

** This indicator was Exceeded in 11/12 due to HRA self financing. The limit was amended for 12/13 as part of the 12/13 Treasury Management Strategy but the 11/12 indicator was not amended.

	2011/12 Budget £'000	2011/12 Actual 1st Qtr £'000	2nd Qtr £'000	3rd Qtr £'000	4th Qtr £'000
Total principal sum allowed to be invested beyond 364-days	10,000	2,000	5,000	5,000	5,000
Budgeted unsupported borrowing:	0	0	0	0	0

Maturity structure of borrowing:	2011/12 Budget £'000	2011/12 Actual 1st Qtr £'000	2nd Qtr £'000	3rd Qtr £'000	4th Qtr £'000	2012/13 Budget £'000
Maturity structure of borrowing: (Actual)	Upper Limit %	Lower Limit %				
Under 5 year	N/A	0%	0%	0%	6%	5%
5-10 years	N/A	0%	0%	0%	10%	10%
10 years to 20 years	N/A	0	0	0	0	40%
20 years to 30 years	N/A	5%	5%	5%	16%	20%
30 years and above	N/A	93%	93%	93%	33%	25%

Maturity structure of borrowing:	2011/12 Budget £'000	2011/12 Actual 1st Qtr £'000	2nd Qtr £'000	3rd Qtr £'000	4th Qtr £'000	2012/13 Budget £'000
	Upper Limit %	Lower Limit %				
Maturity structure of borrowing: (Actual)						
Under 5 year	N/A	0%	0%	0%	6%	5%
5-10 years	N/A	0%	0%	0%	10%	10%
10 years to 20 years	N/A	0	0	0	0	40%
20 years to 30 years	N/A	5%	5%	5%	16%	20%
30 years and above	N/A	93%	93%	93%	33%	25%