ITEM NO: 8.00

TITLE	**Treasury Management Outturn Report 2012-13**
FOR CONSIDERATION BY	The Audit Committee on 16th July 2013
WARD	None specific
STRATEGIC DIRECTOR	Graham Ebers, Strategic Director Resources

OUTCOME / BENEFITS TO THE COMMUNITY

Effective and safe use of our resources to deliver service improvements and service continuity through capital investments.

RECOMMENDATION

The Audit Committee is asked to note:

1) The treasury management annual report for 2012/13; and

2) The actual 2012/13 prudential indicators within the report.

SUMMARY OF REPORT

The 'Treasury Management Annual Report' is a requirement of the Council's reporting procedures. It covers the treasury activity during 2012/13 and the actual Prudential Indicators for 2012/13.

The report highlights the Council's treasury position as at 31 March 2013, sets out the treasury management decisions taken during 2012/13 and shows that the council has complied with its strategy and the prudential indicators that were set in February 2012.

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 confirms that borrowing would have been only undertaken for a capital purpose and the statutory borrowing limits (the authorised limit), was not breached.

The financial year 2012/13 continued the challenging investment environment of previous years, namely low investment returns and continuing heightened levels of counterparty risk.

As at 31st March 2013 the Non- HRA external debt was £46,464m which has had no movement since 31st March 2012.

The HRA External Debt as at 31st March 2013 was £87,718m which has had no movements since 31st March 2012. The HRA has an internal loan of £8,874,000 from the council general fund. The average interest on the external HRA loan is 2.8% compared to an average of 4.4% for general fund borrowing. This represents a approximate saving of £1.4M per annum, and enabled the HRA to set aside £640k in 2012/13 towards the first loan repayment of £2.7m due in March 2014.

In 2012-13 debt did not increase as the council took the opportunity to use internal funds

at a cost of approx. 0.8% as compared to nearer 4% from borrowing with the Public Works Loan board (PWLB).

Icelandic Investments as of 31st March 2013 the council has received £3.265m of the £5m invested (65%). By December 2019 the council expects to recover £4.769m (95.3%)of the original investment.

Background

The full Treasury Annual report for 2012/13 is shown in Appendix A.

The Councils Counter party List at 31st March 2013 is shown in Appendix B

The Councils Prudential indicators are shown in Appendix C

A glossary of terms is shown in Appendix D

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)	Investment £ 61,742m Debt £143,636M	Yes	Revenue and Capital
Next Financial Year (Year 2)	N/A	N/A	Capital
Following Financial	N/A	N/A	Capital

Year (Year 3)			

Other financial information relevant to the Recommendation/Decision

Cross-Council Implications

List of Background Papers

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Date 03/06/2013	**Version No.** 2

WOKINGHAM BOROUGH COUNCIL

TREASURY MANAGEMENT

ANNUAL REPORT 2012/13

Contents

Appendices

1. Introduction and Background

a. This 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 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).

b. During 2012/13 the Executive has received the following reports:

- An annual treasury strategy at its meeting on the 23rd February 2012.
- A mid-year treasury update report at its meeting on the 31st January 2013.
- This report provides the annual review following the end of the year describing the activity compared to the strategy.

2. This report summarises the following:-

a. Capital activity during the year;
b. Impact of this activity on the Council's underlying indebtedness (the Capital Financing Requirement);
c. The actual prudential and treasury indicators;
d. Overall treasury position identifying how the Council has borrowed in relation to this indebtedness, and the impact on investment balances;
e. Summary of interest rate movements in the year;
f. Detailed debt activity;
g. Detailed investment activity.

3. The Council's Capital Expenditure and Financing 2012/13

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;
- Funded by borrowing (Internal or External).

The actual capital expenditure forms one of the required prudential indicators. The tables on the following page show the actual capital expenditure and how this was financed.

Table 1

Non HRA	2011/12 Actual £'000	2012/13 Budget (including 11/12 Cfwds) £'000	2012/13 Actual £'000
Capital expenditure	24,190	54,154	37,045
Financed in year (From Capital receipts, grants Etc.)	21,449	50,206	23,500
Unfinanced capital expenditure. To be funded by borrowing (Internal / External)	2,741	3,948	13,545

Table 2

HRA	2011/12 Actual £'000	2012/13 Budget (including 11/12 Cfwds) £'000	2012/13 Actual £'000
Capital expenditure	98,255	5,030	4,574
Financed in year (From Capital receipts, grants Etc.)	2,787	5,030	4,574
Unfinanced capital expenditure. To be funded by borrowing (Internal / External)	95,468	0	0

Table 3

Total	2011/12 Actual £'000	2012/13 Budget (including 11/12 Cfwds) £'000	2012/13 Actual £'000
Capital expenditure	122,445	59,184	41,619
Financed in year (From Capital receipts, grants Etc.)	24,236	55,236	28,074
Unfinanced capital expenditure. To be funded by borrowing (Internal / External)	98,209	3,948	13,545

4. The Council's Overall Borrowing Need

a) 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 net debt position. The CFR results from the capital activity of the Council and the resources which have been used to pay for the capital spend. It represents the 2012/13 capital expenditure (see table 3 on the previous page), and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

b) 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 ensures that 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, the Public Works Loan Board [PWLB] or the money markets), or utilising temporary cash resources within the Council (Internal Borrowing).

c) Reducing the CFR – the Council's (non Housing Revenue Account) underlying borrowing need (CFR) is not allowed to rise beyond an affordable level. 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 non-Housing Revenue Account (Non-HRA) borrowing need (there is no statutory requirement to reduce the HRA CFR). 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.

d) 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).

e) The Council's 2012/13 MRP Policy (as required by Communities and Local Government (CLG) Guidance) was approved as part of the Treasury Management Strategy Report for 2012/13 on 23/02/2012.

f) The Council's CFR for the year is shown on the following page, and represents a key prudential indicator. It includes private finance initiative (PFI) and leasing schemes on the balance sheet, which increase the Council's borrowing need as there, are also classified as capital expenditure.

CFR: Non HRA	2011/2012 Actual £'000	2012/13 Budget £'000	2012/13 Actual £'000
Opening balance	83,747	83,005	83,005
Add unfinanced capital expenditure (as table 1)	2,741	6,674	13,545
Less MRP	-3,204	-3,135	-3,201
Less PFI & finance lease repayments	-279	-215	-215
Closing balance	83,005	86,329	93,134

The variance between budget and actual in 12/13 is due largely to the movement of Wokingham enterprise assets back into Wokingham Borough Council's ownership (Funded by borrowing).

CFR : HRA	2011/2012 Actual £'000	2012/13 Budget £'000	2012/13 Actual £'000
Opening balance	1,124	96,592	96,592
Add unfinanced capital expenditure (as table 2)	95,468	0	0
Less Voluntary Repayment	0	0	-640
Less PFI & finance lease repayments	0	0	0
Closing balance	96,592	96,592	95,952

The expenditure in 2011/12 was due to the housing subsidy being replaced by the housing revenue account Self-financing. The voluntary repayment of £640k will be used towards funding the repayment of the HRA loan of £2.7m due for repayment in March 2014.

g). Borrowing activity is constrained by prudential indicators for net borrowing and the CFR, and by the authorised limit.

h). 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 2012/13 from financing the capital programme. 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.

i). It should be noted that this indicator is changing to compare gross borrowing to the CFR with effect from 2013/14; this is expected to provide a more appropriate indicator.

Non-HRA and HRA	2011/2012 Actual £'000	2012/13 Budget £'000	2012/13 Actual £'000
Net borrowing position	90,908	190,000	72,440
CFR	179,597	182,920	189,086

5. **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 2012/13 the Council has maintained gross borrowing within its authorised limit.

Authorised Limit	2011/2012 Actual £'000	2012/13 Budget £'000	2012/13 Actual £'000
Debt	134,182	200,000	134,182
Other long term liabilities	9,620	2,000	9,454
Total	143,802	202,000	143,636

6. **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.

Operational boundary	2011/2012 Actual £'000	2012/13 Budget £'000	2012/13 Actual £'000
Debt	189,000	189,000	134,182
Other long term liabilities	1,000	1,000	9,454
Total	190,000	190,000	143,636

7. Actual financing costs as a proportion of net revenue stream

Actual financing costs as a proportion of net revenue stream - this indicator identifies the trend in the cost interest on borrowings as a percentage of gross revenue budget.

Ratio of financing Costs to net revenue stream	2011/12 Actual £'000	2012/13 Budget £'000	2012/13 Actual £'000
Non HRA	3.56%	4.58%	3.55%
HRA	1.84%	23.80%	18.22%

Net Borrowing & Capital Financing Requirement	2011/12 Actual £'000	2012/13 Budget £'000	2012/13 Actual £'000
Borrowing	134,182	220,000	134,182
Investment	-45,506	-120,000	-61,742
Net Borrowing	88,676	100,000	72,440
Capital Financing Requirement (CFR)	179,597	176,986	189,086
Net Borrowing is less than CFR	YES	YES	YES

8. Borrowing Strategy

a) The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure to fund capital expenditure. This strategy is prudent as investment returns are low and counterparty risk is relatively high (in current environment).

The table on the following page shows the internal borrowing of the Council in 2011/12 and 2012/13.

Internal borrowing	31/03/2012 Actual £'000	2012/13 Budget £'000	31/03/2013 Actual £'000
CFR (year end position)	179,597	176,986	189,086
Less External Borrowing	-134,182	-134,182	-134,182
Less Other long term liabilities	-9,669	-9,669	-9,454
Internal Borrowing	**35,746**	**33,135**	**45,450**
31/03/12 Actual to 31/03/13 Movement			9,704
% of internal borrowing to CFR	**20%**	**19%**	**24%**

Sector's advice (Wokingham Borough Council's treasury advisors) suggests it is prudent not to exceed an internal borrowing level of 25-30% of our CFR to minimise our net debt interest exposure level.

9. Treasury Position as at 31 March 2013

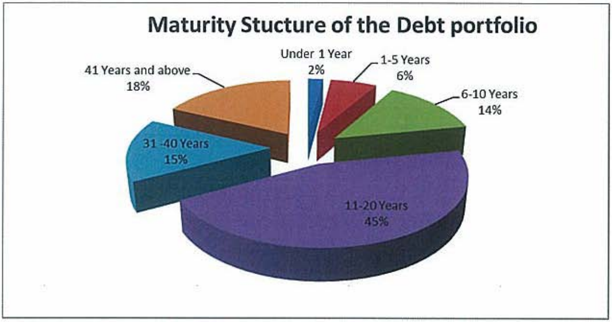
Non-HRA	31 March 2012 Principal £'000	Rate/ Return %	31 March 2013 Principal £'000	Rate/ Return %
Fixed rate funding:				
-PWLB	23,031	4.49%	23,031	4.49%
Variable rate funding:				
-Market	23,433	4.28%	23,433	4.28%
Total debt	46,464	4.38%	46,464	4.38%
CFR	83,005		93,134	
Over / (under) borrowing (Funded by internal Borrowing)	36,541		46,670	

HRA	31 March 2012 Principal £'000	Rate/ Return %	31 March 2013 Principal £'000	Rate/ Return %
Fixed rate funding:				
-PWLB	87,151	2.79%	87,151	2.79%
Variable rate funding:				
-Market	567	4.28%	567	4.28%
Total debt	87,718	2.80%*	87,718	2.80%
CFR	96,592		95,952	
Over / (under) borrowing (Funded by Internal loan)	8,874		8,234	

* through the careful analysis of the Housing long term business plan and assessing the optimum length of loan required (short dated loans are usually cheaper), our finance team managed to achieve a beneficial average loan rate for the PWLB funded debt, by taking our numerous loans for different periods of time. This means that instead of paying £4m a year, the HRA pays £2.8m a year which is a £1.2m saving p.a. This is a great deal for the Housing Revenue Account, secured by our finance team, and means that more money is available to either meet our Decent Homes Standard and/or achieve debt free status even quicker

a) The Council's debt and investment position is managed 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. On the following page a table demonstrates the council's treasury position as at the beginning and the end of 2012/13.

b) The maturity structure of the debt portfolio as at 31st March 2013 is shown below a detailed breakdown is shown in appendix C.



c) The maturity structure of the investments portfolio as at 31st March 2013 was as follows:

Investments	31/03/2012 Actual £'000	2012/13 Budget £'000	31/03/2013 Actual £'000
Investments			
Longer than 1 year	2199	10,000	1,553
Under 1 year	43,307	40,000	60,189
Total	**45,506**	**50,000**	**61,742**

d) The exposure to fixed and variable rates was as follows:

Interest rate exposures: Debt	2011/12 Actual £'000	2012/13 Budget £'000	2012/13 Actual £'000
Upper limit on fixed rate exposures - Net Position	110,182	180,000	110,182
Upper limit on variable rate exposures - net position	24,000	40,000	24,000

Interest rate exposures: Investment	2011/12 Actual £'000	2012/13 Budget £'000	2012/13 Actual £'000
Upper limit on fixed rate exposures - Net Position	-25,340	-80,000	-37,759
Upper limit on variable rate exposures - net position	-20,133	-40,000	-23,983

10. The Strategy for 2012/13

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 rate.

The strategy adopted in the original Treasury management strategy report for 2012/13 approved by the Council on 23 February 2012 has been adhered to. However, there was a technical adjustment required to the capital financing requirement (CFR) this was as a result of an incorrect treatment of MRP. This has no impact on the agreed borrowing levels.

11. The Economy and Interest Rates

a) The original expectation for 2012/13 was that Bank Rate would not rise in 2012/13 or 2013/14 and for it to start gently rising from quarter 4 2014. This forecast rise has now been pushed back to a start in quarter 1 2015 at the earliest. Economic growth (Gross domestic product - GDP) in the UK was virtually flat during 2012/13, due to the UK austerity programme, subdued domestic consumer expenditure, a lack of rebalancing of the UK economy to exporting and weak growth in our biggest export market - the European Union (EU). This weak UK growth resulted in the Monetary Policy Committee increasing quantitative easing by £50bn in July to a total of £375bn. Bank Rate, therefore, ended the year unchanged at 0.5%, while Consumer price index (CPI) inflation has remained stubbornly high and above the 2% target, starting the year at 3.0% and reducing to 2.4% in April; however, it is forecast to fall to 2% in three years' time. The European Union(EU) sovereign debt crisis was an on-going saga during the year, with an eventual very protracted agreement of a second bailout for Greece in December followed by a second major crisis, this time over Cyprus, towards the end of the year.

b) Gilt yields oscillated during the year as events in the on-going 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 Quantitative easing (QE) (mentioned above) and widely expected further Quantitative easing (QE) still to come, combined to keep PWLB rates depressed for much of the year at historically low levels.

The Funding for Lending Scheme, announced in July, has resulted in a flood of cheap credit being made available to banks and this has resulted in money market investment rates falling drastically in the second half of the year. However, perceptions of counterparty risk have improved after the European Central Bank (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.

c) 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 in March.

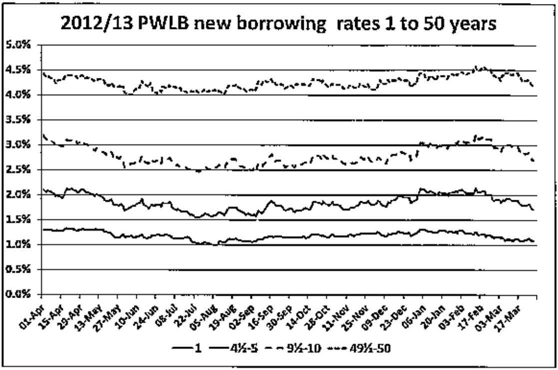
12. Borrowing Rates in 2012/13

a) The majority of Wokingham Borough Council's loans are with the Public Works Loan Board (PWLB) the Board's interest rates are determined by HM Treasury.

b) From 1 November 2012 a PWLB Certainty Rate was introduced alongside the existing PWLB Standard Rate.

c) **Certainty Rate** - From 1 November 2012, the Government reduced by 20 basis points (0.2%) the interest rates on loans from PWLB to principal local authorities who provided the required information on their plans for long-term borrowing and associated capital spending. Wokingham Borough Council signed up to this rate and has provided the government with our estimated spending plans.

d) PWLB borrowing rates - the graph on the following page shows how PWLB rates remained close to historically very low levels during the year.



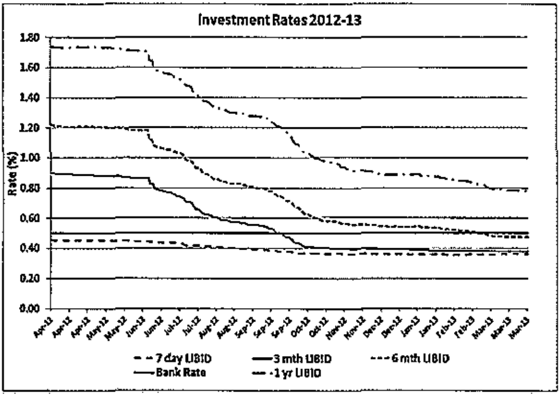
13. Borrowing Outturn for 2012/13

a) General fund - no additional external borrowing was required in 2012-13. As all borrowing requirements are funded through internal borrowing.

b) Housing revenue account - no additional borrowing was required for 2012-13.

14. Investment Rates in 2012/13

a) 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 2015 at the earliest. The Funding for Lending Scheme resulted in a sharp fall in deposit rates in the second half of the year.



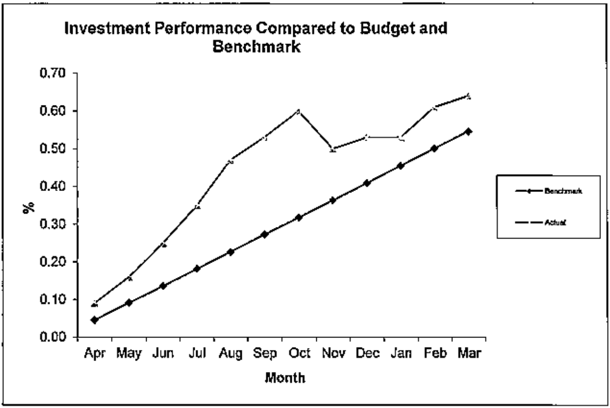
15. Investment Outturn for 2012/13

a) 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 23rd February 2012. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies supplemented by additional market data (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.

b) <u>Resources</u>-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 comprise the following and met the expectations of the budget ***Table to added***

c) <u>**Investments held by fund manager**</u> - The Council has appointed 2 external fund managers to invest part of its cash balances. The Graph on the following page shows the performance of the managers against the benchmark.



Due to continued uncertainty in the financial markets in particular the need to ensure funds are only lent to high quality counterparties the Council has been able to achieve above the benchmark (7 day LBID- London Interbank Bid Rate)

Level of investment	31/03/2012 Actual £'000	2012/13 Budget £'000	31/03/2013 Actual £'000
Scottish Widows Investment Partnership	9,264	12,500	19,320
Royal London Asset Management	16,106	12,500	22,736
Total	25,370	25,000	42,056

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

Average return on Investments	1st Qtr %	2nd Qtr %	3rd Qtr %	4th Qtr %
Scottish Widows Investment Partnership	0.39%	0.75%	1.03%	1.27%
Royal London Asset Management	0.26%	0.56%	0.64%	0.68%
In-house	0.15%	0.36%	0.51%	0.66%
Total (Weighted Average)	0.24%	0.51%	0.71%	0.86%

*Scottish Widows invest in money market funds and at present have been achieving better rates then Certificate deposits which Royal London use as an investment tool.

16. 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.

17. Icelandic Bank Defaults

Early in October 2008, the Icelandic banks Landsbanki, Kaupthing and Glitnir collapsed and the UK subsidiaries of these banks, Heritable and Kaupthing Singer and Friedlander went into administration. The Council had £5m deposited across two of these institutions, with varying maturity dates and interest rates set out on the following page. As of 31/03/2013 the council had received repayment totalling £3.265m.

Bank	Date Invested	Maturity Date	Amount Invested £'000	Interest Rate %	Carrying Amount £'000	Impairment £'000
Heritable	01/11/2006	03/11/08	2,000	0.05	218	232
Heritable	01/09/2008	28/08/09	1,000	0.06	105	125
Landsbanki	01/08/2008	27/02/09	1,000	0.06	598	-66
Landsbanki	01/09/2008	28/08/09	1,000	0.06	631	-110
Total			**5,000**		**1,552**	**181**

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.

All monies within these institutions are currently subject to the respective administration and receivership processes. The amounts and timing of payments to depositors such as the council will be determined by the administrators / receivers. The current situation with regards to recovery of the sums deposited varies between each institution. 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 possible 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 recover a total of £4.769m of the original £5m invested by December 2019. The Council has followed the advice from the Chartered Institute of Public Finance and Accountancy (CIPFA) in their guidance note LAAP 82 Update No 7 issued in May 2013 on expected payment dates and amounts. 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
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 pay-outs 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.
The current position on payments received to 31st March 2013 (77.2%), and expected future payments (10.8%), is set out below.

Date	Repayment Amount £'000	Repayment %
Received to 31st March 2013	2,319	77.20
July 2013	64	2.00
January 2014	281	8.80
TOTAL	2,664	88.00

Landsbanki

Landsbanki Islands hf 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. Following the Icelandic Supreme Court decision to grant 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 payments received to 31st March 2013 and estimated future pay-outs 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 Amount £'000	Repayment %
Received to 31st March 2013	946	49.65
December 2013	173	7.50
December 2014	173	7.50
December 2015	173	7.50
December 2016	173	7.50
December 2017	173	7.50
December 2018	173	7.50
December 2019	121	5.35
TOTAL	2,105	100

Recovery is subject to the following uncertainties and risks:

- The impact of exchange rate fluctuations on the value of assets recovered by the resolution committee and on the settlement of the authority's claim, which may be denominated wholly or partly in currencies other than sterling.
- Recoveries are expressed as a percentage of the councils claim in the administration, which it is expected may validly include interest accrued up to 22 April 2009 [or maturity date if earlier].

Accounting for the Impairment

No changes were required in 2012/13 to the impairment balances at 31st March 2012 shown above, however, adjustments may be required in future accounts if the above assumptions for payment dates and levels are amended. The impairment reduction from previous years (principal plus interest not received) recognised in the Income and Expenditure Account in 2011/12, £1.959m, was calculated by discounting the assumed cash flows at the effective interest rate of the original deposits in order to recognise the anticipated loss of interest to the authority until monies are recovered.

Counterparty list as at 31 March 2013

COUNTERPARTY LIMITS 28 March 2013 MAXIMUM OF £5m per Group	Country	Fitch Long Term Rating *	Individual Limit per LCD £000	Max Duration Months	Current Investment £000	Available Balance £000	Active
Others							
Other Local Authorities	UK	AAA	5,000	36	0	5,000	
Leeds City Council	UK	AAA	5,000	36	5,000	0	
Salford City Council	UK	AAA	5,000	36	2,000	3,000	
Newcastle City Council	UK	AAA	5,000	36	0	5,000	
Nottingham City Council	Uk	AAA	5,000	36	0	5,000	
Birmingham City Council	UK	AAA	5,000	36	5,000	0	
Lancashire County Council	UK	AAA	5,000	36	5,000	0	
Debt Management Office (DMO)	UK	AAA	20,000	3	0	20,000	Y
Money Market Funds							
Invesco Global MMF (was AIM)	UK	AAA	5,000	36	1,000	4,000	Y
Deutsche Bank Sterling Fund (was Henderson)	Ireland	AAA	5,000	36	0	5,000	Y
Royal Bank of Scotland MMF -Sterling Fund	UK	AAA	5,000	36	400	4,600	Y
RBS Govt Back MMF	UK	AAA	5,000	36	0	5,000	
BANKING GROUPS							
Lloyds Banking Group							
Bank of Scotland	UK	A	3,000	6	0	3,000	
Lloyds TSB	UK	A	3,000	6	0	3,000	
Group Limit			3,000			3,000	
HSBC Group							
HSBC Bank plc	UK	AA-	3,000	6	0	3,000	
INDIVIDUAL BANKS							
Royal Bank of Canada	Canada	AA	3,000	12	0	3,000	N
Toronto-Dominion Bank	Canada	AA-	3,000	12	0	3,000	N
Landwirtschaftliche Rentenbank	Germany	AAA	5,000	12	0	5,000	
Kfw	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	N
Bank Nederlandse Gemeenten	Netherlands	AAA	5,000	12	0	5,000	
Development Bank of Singapore	Singapore	AA-	3,000	12	0	3,000	N
Oversea Chinese Banking Corp	Singapore	AA-	3,000	12	0	3,000	N
United Overseas Bank LTD	Singapore	AA-	3,000	12	0	3,000	
Barclays Bank	UK	A	3,000	6	0	3,000	
Close Brothers	UK	A	3,000	6	0	3,000	
Sumitomo Mitsui Corporation Grp	UK	A-	3,000	6	0	3,000	
Santander UK PLC	UK	A	3,000	6	0	3,000	
Building Societies							
Nationwide Building Society	UK	A+	2,000	3	2,000	0	N
Coventry Building Society	UK	A	2,000	3	0	2,000	N
Leeds Building Society	UK	A-	2,000	3	0	2,000	N
Banks/Building Societies no longer meeting criteria							
Frozen Investments							
Heritable Bank			0		680	-680	
Landsbanki			0		1,053	-1,053	
TOTAL INVESTMENTS					22,133		
* GB = Government Backed							
** Barclays Investment 3+ months - dealt before change in max duration							
Monthly Counterparty Changes							
Building Society 3 months - following Sectors advice							
Nordea Bank Finland removed 25/05/12							
Svenska Handelson Bank removed 25/05/12							
Co-op removed 20/07/2012							

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 and treasury indicators

PRUDENTIAL INDICATORS	2011/2012 Actual £'000	2012/13 Budget £'000	2012/13 Actual £'000
Capital Expenditure			
Non - HRA	24,190	54,154	37,045
HRA	98,255	5,030	4,574
TOTAL	122,445	59,184	41,619
Ratio of financing costs to net revenue stream			
Non - HRA	3.56%	4.58%	3.55%
HRA	1.84%	22.10%	18.22%
Net borrowing requirement			
Non - HRA & HRA	88,676	100,000	72,440
Net debt			
CFR			
Non - HRA	83,005	86,328	93,134
HRA	96,592	96,592	95,952
TOTAL	179,597	182,920	189,086
Annual change in Cap. Financing Requirement			
Non – HRA			10,129
HRA			-640
TOTAL			9,489

TREASURY MANAGEMENT INDICATORS	2011/2012 Actual £'000	2012/13 Budget £'000	2012/13 Actual £'000
Authorised Limit for external debt -			
borrowing	134,182	200,000	134,182
other long term liabilities	9,669	2,000	9,454
TOTAL	143,851	202,000	143,636
Operational Boundary for external debt -			
borrowing	134,192	189,000	134,182
other long term liabilities	9,620	1,000	9,454
TOTAL	143,812	190,000	143,636

TREASURY MANAGEMENT INDICATORS	2011/2012 Actual £'000	2012/13 Budget £'000	2012/13 Actual £'000
Actual external debt			
Upper limit for fixed interest rate exposure			
Upper limit on fixed rate exposures - Debt Only	110,182	180,000	110,182
Upper limit on variable rate exposures - Debt Only	24,000	40,000	24,000
Upper limit on fixed rate exposures - Investments Only	-25,340	-80,000	-37,759
Upper limit on variable rate exposures - Investments Only	-19,593	-40,000	-23,983
Upper limit on fixed rate exposures - Net Position	84,842	100,000	72,423
Upper limit on variable rate exposures - net position	4,407	0	17
Net Borrowing	**89,249**	**100,000**	**72,440**

Maturity structure of fixed rate borrowing	Total 2012/2013 £'000	2012/2013 %
Under 1 Year	2,700	2.01%
1-5 Years	8,324	6.20%
6-10 Years	18,269	13.61%
11-20 Years	60,701	45.24%
31 -40 Years	20,188	15.05%
41 Years and above	24,000	17.89%
Total	**134,182**	**100%**

Maturity structure of fixed rate borrowing HRA	2012/2013 £'000	2012/2013 %
Under 1 Year	2,700	3.08%
1-5 Years	8,324	9.49%
6-10 Years	17,292	19.71%
11-20 Years	58,358	66.53%
31 -40 Years	477	0.54%
41 Years and above	567	0.65%
Total	87,718	100%

Maturity structure of fixed rate borrowing Non – HRA	2012/2013 £'000	2012/2013 %
Under 1 Year	0	0.00%
1-5 Years	0	0.00%
6-10 Years	976	2.10%
11-20 Years	2,343	5.04%
31 -40 Years	19,711	42.42%
41 Years and above	23,434	50.44%
Total	46,464	100%

Glossary of terms

PWLB - Public Works Loan Board - is a statutory body operating within the Debt Management Office, an Executive Agency of HM Treasury.

CFR - Capital Financing Requirement- reflects the Council's underlying need to borrow for a capital purpose. It shows the total estimated capital expenditure that has not been resourced from capital or revenue sources. This requirement will eventually be met by revenue resources through the Minimum Revenue Provision mechanism.

MRP - Minimum Revenue Provision- Is a provision the council has set-aside from revenue to reduce borrowing arising from unfinanced capital expenditure (Borrowing).

Authorised Limit – Represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

Boundary Limit – Is an estimate as the authorised limit but reflects an estimate of the most likely, prudent, but not worst case scenario, without the additional headroom included within the authorised limit to allow for example for unusual cash movements.

PWLB certainty rate - A reduced interest rate from PWLB to principal local authorities, which provided required information to government on their plans for long-term borrowing and associated capital spending.

CIPFA Prudential code - is a professional code of practice to support local authorities in taking capital investment decisions. Local authorities determine their own programmes for capital investment in fixed assets that are central to the delivery of quality local public services in accordance with the Prudential Code.

Gross domestic product (GDP) - is the market value of all officially recognized final goods and services produced within a country in a given period of time.

Consumer price index (CPI) - measures changes in the price level of a market basket of consumer goods and services purchased by households.

ECB - European Central Bank.

Gilt - is a UK Government liability in sterling, issued by HM Treasury and listed on the London Stock exchange.

Voluntary Revenue Provision (VRP) – This a discretionary provision to reduce the unfinanced capital expenditure (Borrowing) funded by revenue.

Private Finance Initiative (PFI) - This is funding public infrastructure projects with private capital.

Quantitative easing (QE) -A government monetary policy occasionally used to increase the money supply by buying government securities or other securities from the market. Quantitative easing increases the money supply by flooding financial institutions with capital, in an effort to promote increased lending and liquidity.

Communities and Local Government (CLG) - Is a ministerial department, supported by 12 agencies and public bodies. They are working to move decision-making power from central government to local councils. This helps put communities in charge of planning, increases accountability and helps citizens to see how their money is being spent.

Financing Cost to Net Revenue Stream-The percentage of the revenue budget set aside each year to service debt financing costs.

London Interbank Bid Rate - the rate at which banks will bid to take deposits in Eurocurrency from each other. The deposits are for terms from overnight up to five years.