Appendix 1

ANNUAL REPORT ON THE TREASURY MANAGEMENT SERVICE 2013/14 (INCORPORATING OUTTURN PRUDENTIAL INDICATORS)

1. The Council's Capital Activity During 2013/14

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.
- The Council did borrow during 2013/14.

2. Reporting of the Required Prudential and Treasury Indicators

- During 2013/14, 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:

Actual Prudential and Treasury Indicators	2012/13 Actual	2013/14 Actual
Actual Capital Expenditure	£4.955m	£12.552m
Total Capital Financing Requirement:	£2.514m	£2.601m
Net Borrowing	-£28.111m	-£27.496m
External Debt	Nil	-£6.000m
Investments – Under 1 Year	£28.111m	£33.496m

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

Actual Capital Expenditure and Financing	2012/13 Actual £000	2013/14 Original Estimate £000	2013/14 Latest Estimate £000	2013/14 Actual £000
Capital Expenditure	4.955	21.586	12.604	12.552
Total Capital Expenditure				
Resourced by:				
• Capital Receipts	3.157	13.727	7.319	7.291
• Capital Grants	1.798	6.359	3.610	3.610
• Reserves	0.000	1.500	1.675	1.651
Unfinanced Capital Expenditure	**0.000**	**0.000**	**0.000**	**0.000**

3. Impact of This Activity on the Council's Underlying Indebtedness (the Capital Financing Requirement)

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 2013/14 unfinanced capital expenditure (see above table), and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

The Council's CFR for the year was zero. This includes 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 in the contract (if applicable).

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

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 2013/14 the Council has maintained gross borrowing within its authorised limit.

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 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.

Gross Borrowing Within Authorised Limit	2012/13 Actual	2013/14 Actual
Authorised Limit	£7.0m	£13.0m
Operational Boundary	£5.0m	£10.0m
Average Gross Borrowing Position	Nil	£6.0m
Financing Costs as a Proportion of Net Revenue Stream	-1.71%	-0.78%

4. Overall Treasury Position and the Impact on Investment Balances

The Council's debt and investment position is organised by the Treasury Management service 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 2013/14 the Council's treasury position was as follows:

Treasury Position	31 March 2013 Principal	Rate/ Return	31 March 2014 Principal	Rate/ Return
Total Debt	Nil		£6.000m	
CFR	£2.514m		£2.601m	
Investments - in House	£28.111m	0.90%	£33.496m	0.58%
Total Investments	**£28.111m**	**0.90%**	**£33.496m**	**0.58%**

The maturity structure of the investment portfolio was all under one year.

The exposure to fixed and variable rates was as follows:

Exposure to Fixed and Variable Rates	31 March 2013 Actual	31 March 2014 Actual
Fixed Rate (Principal or Interest)	£11.000m	£14.000m
Variable Rate (Principal or Interest)	£17.111m	£19.496m

5. The Economy and Interest Rates – Capita Asset Services Report

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

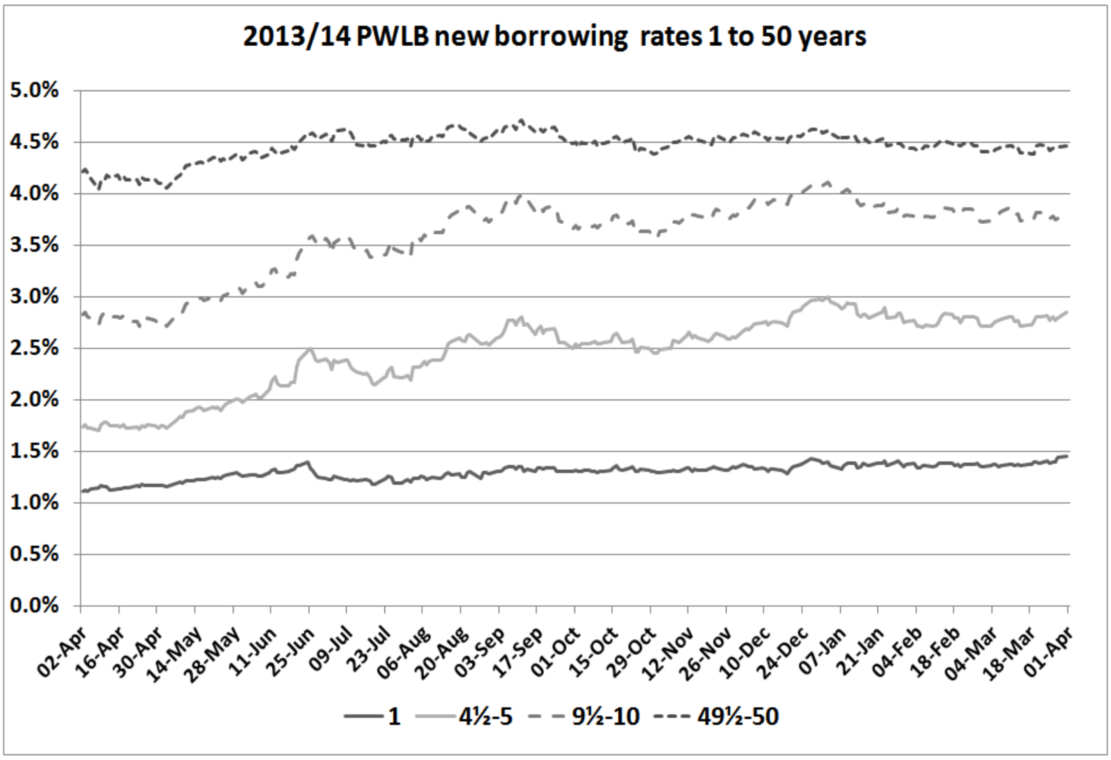
Gilt yields were on a sharply rising trend during 2013 but volatility returned in the first quarter of 2014 as various fears sparked a flight to quality. The Funding for Lending Scheme, announced in July 2012, resulted in a flood of cheap credit being made available to banks which then resulted in money market investment rates falling drastically in the second half of that year and continuing into 2013/14. That part of the Scheme which supported the provision of credit for mortgages was terminated in the first quarter of 2014 as concerns rose over resurging house prices.

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

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

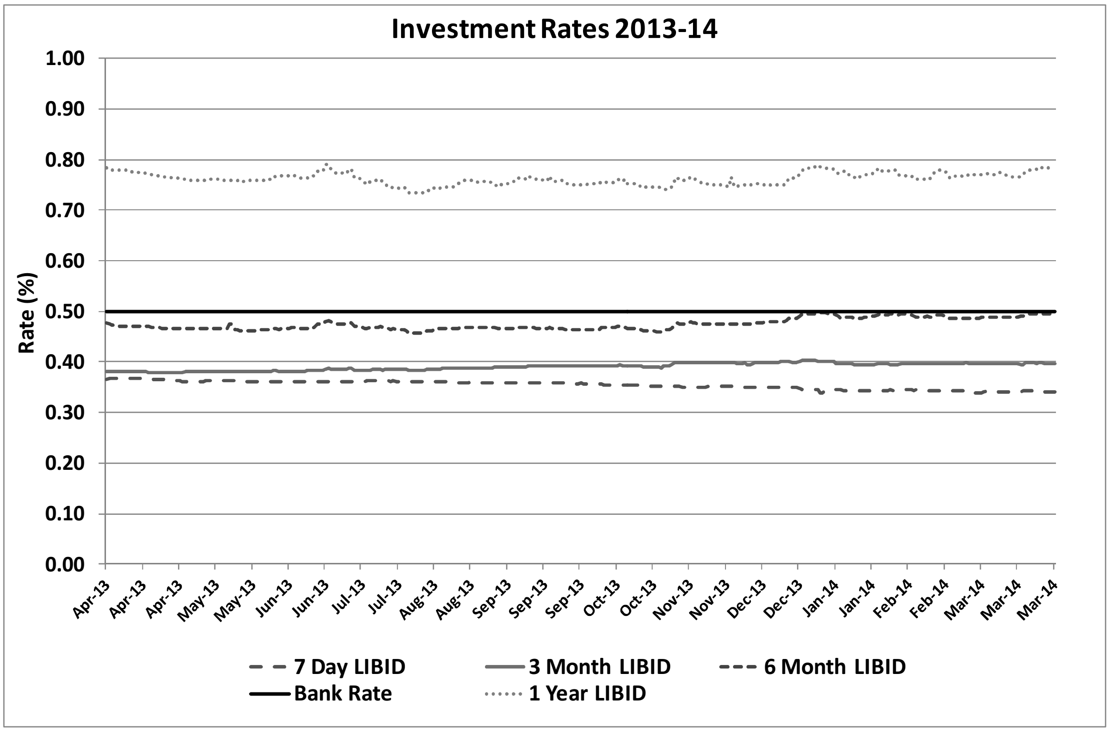
6. Borrowing Rates in 2013/14 – Capita Asset Services Report

PWLB borrowing rates - the graphs and table for PWLB certainty 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.



7. Investment Rates in 2013/14 – Capita Asset Services Report

Bank Rate remained at its historic low of 0.5% throughout the year; it has now remained unchanged for five years. Market expectations as to the timing of the start of monetary tightening ended up almost unchanged at around the end of 2014 / start of 2015. The Funding for Lending Scheme resulted in deposit rates remaining depressed during the whole of the year, although the part of the scheme supporting provision of credit for mortgages came to an end in the first quarter of 2014.



8. Investment Outturn for 2013/14

Investment Policy – the Council's investment policy is governed by CLG guidance, which was implemented in the annual investment strategy approved by the Council on 26 February 2013. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc).

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

Resources – the Council's longer term cash balances comprise primarily of revenue and capital resources, although these will be influenced by cash flow considerations. The Council's core cash resources as at 19.06.14 (before NNDR journals have been posted) comprised as follows, and met the expectations of the budget.

Balance Sheet Resources	31 March 2013	31 March 2014
General Fund	£1.350m	£0.500m
Earmarked Reserves	£13.362m	£15.090m
Usable Capital Receipts	£12.616m	£13.420m
Total	**£27.328m**	**£29.010m**

Investments Held by the Council - the Council maintained an average balance of £30.803m of internally managed funds. The internally managed funds earned an average rate of return of 0.74%. The comparable performance indicator is the average 3 month LIBID rate, which was 0.39%.