ANNUAL REPORT ON THE TREASURY MANAGEMENT SERVICE 2012/13

1. The Council's Capital Activity During 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; 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 not borrow during 2012/13.

2. Reporting of the Required Prudential and Treasury Indicators

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

Actual Prudential and Treasury Indicators	2011/12 Actual	2012/13 Actual
Actual Capital Expenditure	£10.066m	£4.955m
Total Capital Financing Requirement (CFR)	£2.974m	£2.514m
Net Borrowing	-£29.112m	-£28.111m
External Debt	£0.000m	£0.000m
Investments - Under 1 Year	£29.112m	£28.111m

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	2011/12 Actual £000	2012/13 Estimate £000	2012/13 Actual £000
Capital Expenditure	10.066	4.904	4.955
Total Capital Expenditure			
Resourced by:			
• Capital Receipts	8.384	3.106	3.157
• Capital Grants and Other Contributions	1.682	1,798	1.798
• Other Contributions and MRP	0.366	0.460	0.460
Over Financed Capital Expenditure	**-0.366**	**-0.460**	**-0.460**

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. The Council's CFR for the year was zero.

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 2012/13 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	2011/12 Actual	2012/13 Actual
Authorised Limit	£7.0m	£7.0m
Maximum Gross Borrowing Position	£5.0m	£5.0m
Operational Boundary	£5.0m	£5.0m
Average Gross Borrowing Position	Nil	Nil
Financing Costs(+) / Income (-) as a Proportion of Net Revenue Stream	-4.34%	-1.71%

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 detailed in the summary, and through officer activity detailed in the Council's Treasury Management Practices. At the beginning and the end of 2012/13 the Council's treasury position was as follows:

Treasury Position	31 March 2012 Principal	Rate / Return	31 March 2013 Principal	Rate / Return
Total Debt	Nil		Nil	
CFR	Nil		Nil	
Investments - in House	£29.112m	1.22%	£28.111m	1.38.%
Total investments	***£29.112m***	***1.22%***	***£28.111m***	***1.38%***

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 2012 Actual	31 March 2013 Actual
Fixed Rate (Principal)	£18.970m	£11.000m
Variable Rate (Principal)	£10.142m	£17.111m

5. The Economy and Interest Rates

Sovereign Debt Crisis - the EU sovereign debt crisis was an ongoing saga during the year. However, the ECB statement in July that it would do "whatever it takes" to support struggling Eurozone countries provided a major boost in confidence that the Eurozone was (at last) beginning to get on top of its problems. This was followed by the establishment of the Outright Monetary Transactions Scheme in September. During the summer, a €100bn package of support was given to Spanish banks. The crisis over Greece blew up again as it became apparent that the first bailout package was insufficient. An eventual very protracted agreement of a second bailout for Greece in December was then followed by a second major crisis, this time over Cyprus, towards the end of the year. In addition, the Italian general election in February resulted in the new Five Star anti-austerity party gaining a 25% blocking vote; this has the potential to make Italy almost ungovernable if the grand coalition formed in April proves unable to agree on individual policies. This could then cause a second general election – but one which could yield an equally 'unsatisfactory' result! This result emphasises the dangers of a Eurozone approach heavily focused on imposing austerity, rather than promoting economic growth, reducing unemployment, and addressing the need to win voter support in democracies subject to periodic general elections. This weakness leaves continuing concerns that this approach has merely postponed the ultimate debt crisis, rather than provide a conclusive solution. These problems will, in turn, also affect the financial strength of many already weakened EU banks during the expected economic downturn in the EU. There are also major questions as to whether the Greek Government will be able to deliver on its promises of cuts in expenditure and increasing tax collection rates, given the hostility of much of the population.

The UK Coalition Government - maintained its tight fiscal policy stance against a background of warnings from two credit rating agencies that the UK could lose its AAA credit rating. Moody's followed up this warning by actually downgrading the rating to AA+ in February 2013 and Fitch then placed their rating on negative watch, after the Budget statement in March. Key to retaining the AAA rating from Fitch and S&P will be a return to strong economic growth in order to reduce the national debt burden to a sustainable level, within a reasonable timeframe.

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

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

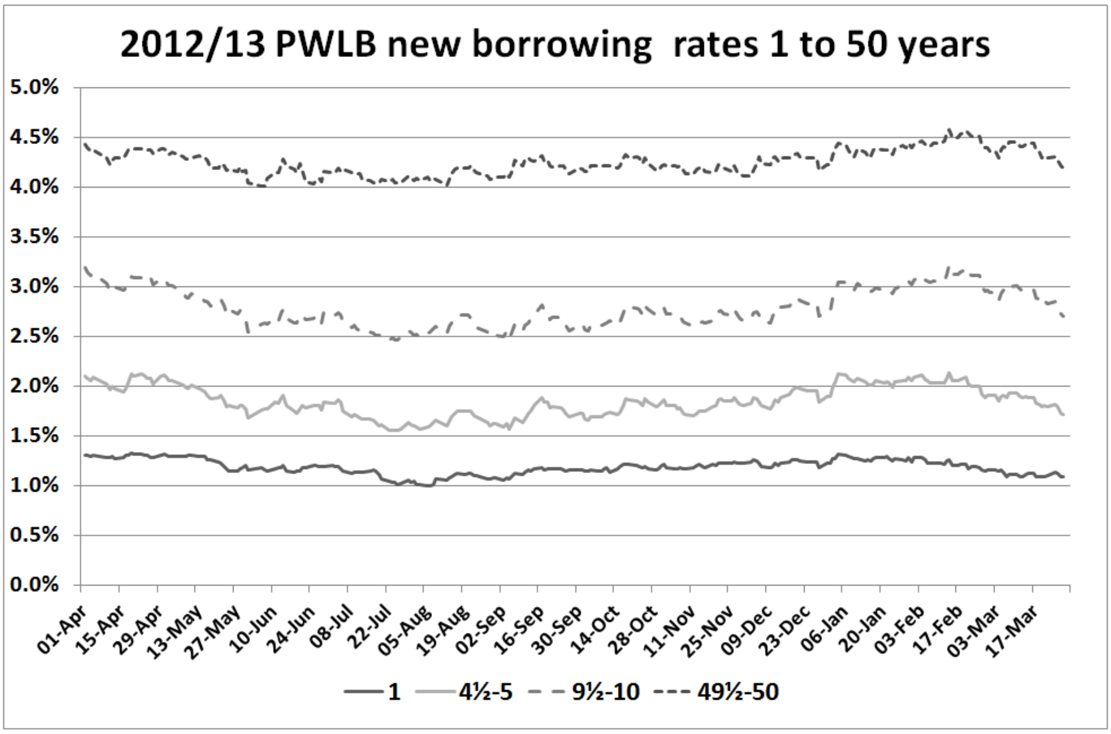
Gilt Yields - oscillated during the year as events in the ongoing Eurozone debt crisis ebbed and flowed, causing corresponding fluctuations in safe haven flows into / out of UK gilts. This, together with a further £50bn of QE in July and widely expected further QE still to come, combined to keep PWLB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

Bank Rate - was unchanged at 0.5% throughout the year, while expectations of when the first increase would occur were pushed back to quarter 1 2015 at the earliest.

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

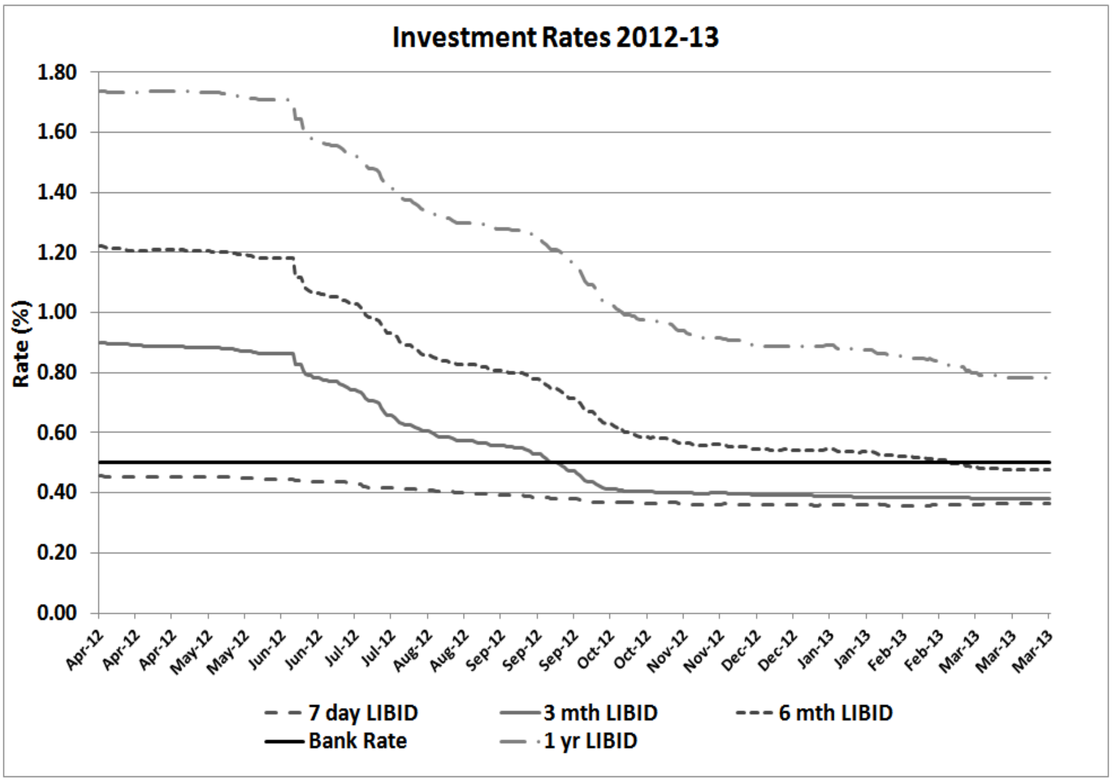
6. Borrowing Rates in 2012/13

PWLB Borrowing Rates - the graphs and table for PWLB maturity rates below, and in appendix 3, 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 2012/13

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.



8. Investment Outturn for 2012/13

Investment Policy – the Council's investment policy is governed by CLG guidance, and the policy was approved by Council on 14 March 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.

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:

Balance Sheet Resources	31 March 2012 £000	31 March 2013 £000
General Fund	1.350	1.350
Earmarked Reserves	13.306	13.362
Usable Capital Receipts	12.872	12.616
Total	**27.528**	**27.328**

Investments Held by the Council - the Council maintained an average balance of £28.611m of internally managed funds. The internally managed funds earned an average rate of return of 1.38%. The comparable performance indicator is the average 3 month LIBID rate, which was 0.56%.