E

Council	
9 September 2013	

Subject: Annual Report on the Treasury Management Service and Actual Prudential and Treasury Indicators 2012/2013

Report by:	Chief Finance Officer
Contact Officer:	Tracey Bircumshaw Group Accountant 01427 676560 Tracey.Bircumshaw@west-lindsey.gov.uk
Purpose / Summary:	The annual treasury 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.

RECOMMENDATION(S):

That Members note the Annual Treasury Management Report and Approve the Actual 2012/13 Prudential and Treasury Indicators.

IMPLICATIONS

Legal:
None arising from this report.

Financial : FIN/8/14
None arising from this report.

Staffing :
None arising from this report.

Equality and Diversity including Human Rights :

Risk Assessment :
None arising from this report.

Climate Related Risks and Opportunities :
None arising from this report.

Title and Location of any Background Papers used in the preparation of this report:

Call in and Urgency:

Is the decision one which Rule 14.7 of the Scrutiny Procedure Rules apply?

i.e. is the report exempt from being called in due to urgency (in consultation with C&I chairman)	**Yes**		**No**	**x**

Key Decision:

A matter which affects two or more wards, or has significant financial implications	**Yes**		**No**	**x**

Background

The Council is required by regulations issued under the Local Government Act 2003 to produce an Annual Treasury Management Report to review activities and to report the actual prudential and treasury indictors 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).

During 2012/13 the minimum reporting requirements were that the full Council should receive the following reports:

- an Annual Treasury Strategy in advance of the year - Council 05/03/2012
- a Mid Year (minimum) Treasury Update Report – Council 10/12/12
- an Annual Treasury Management Report following the year describing the activity compared to the strategy (this report).

The regulatory environment places responsibility on Members for the review and scrutiny of treasury management policy and activities. The report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by Members.

The Council confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Governance and Audit Committee (Annual Investment Strategy) and Policy and Resources Committee (Capital Programme, Mid Year and Annual Report) before they are reported to the full Council. Member training on treasury management issues was undertaken during the year in October 2012 in order to support Members' scrutiny role.

In addition, the Policy and Resources Committee has received Quarterly Treasury Management Update Reports on 27/09/2012 and 21/02/13, and has considered and recommended to Council this Annual Treasury Management Report on 25/07/2013.

Executive Summary

During 2012/13, the Council complied with its legislative and regulatory requirements and the requirements of The Prudential Code. There were no breaches of prudential or treasury indicators during 2012/13.

The prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, as contained within the full report, are as follows and the Council are asked to approve these indicators.

Prudential and treasury indicators	2011/12 Actual £'000	2012/13 Original £'000	2012/13 Revised £'000	2012/13 Actual £'000
Capital expenditure	3,109	2,863	3,169	2,458
Capital Financing Requirement:	1,887	2,061	2,014	1,842
Net borrowing/(investments)	(15,460)	(9,413)	(12,935)	(15,852)
Other Financial Liabilities (Finance Leases)	821	1,250	1,250	782
External debt	0	0	0	0
Investments				
• Longer than 1 year	1,673	1,500	1,500	1,373
• Under 1 year	14,181	8,309	12,384	14,694
• Total	**15,854**	**9,809**	**13,884**	**16,067**

The Capital Financing Requirement (CFR) reflects 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 2012/13 unfinanced capital expenditure, and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources. £1.065m of the £1.842m is not required to be repaid due to statutory regulations.

Capital Financing Requirement	31 March 2012 Actual £'000	31 March 2013 Budget £'000	31 March 2013 Revised £'000	31 March 2013 Actual £'000
Opening balance	**1,982**	**1,886**	**1,887**	**1,887**
Adj for previous year financing	0	0	0	(12)
Add adjustment for the inclusion of on-balance sheet leasing arrangements	136	387	387	215
Less Finance Lease repayments/MRP/VRP*	(231)	(212)	(260)	(248)
Closing balance	**1,887**	**2,061**	**2,014**	**1,842**

Net Borrowing position compared to CFR	31 March 2012 Actual £'000	31 March 2013 Original £'000	31 March 2013 Revised £'000	31 March 2013 Actual £'000
Net borrowing/(investment) position	(15,460)	(9,413)	(12,935)	(15,852)
CFR	1,887	2,061	2,014	1,842

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.

3.10 **The Operational Boundary** – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached.

3.11 **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.

3.12 **Impact on Council Tax**

The indicator represents the incremental impact of the capital investment decision on Council Tax. The consequential net revenue cost of any capital investment funded from either borrowing or finance leases, is divided by the Council Tax base of 30,733 to reflect the impact on Council Tax (Band D).

	31 March 2013 Revised £'000	31 March 2013 Actual £'000
Authorised Limit	6,250	782
Operational Boundary	821	782
Financing costs as a proportion of net revenue stream	-	0.16%
Incremental increase in Council Tax (Band D) per annum	-	£1.48

The Head of Financial Services (S151 Officer) also confirms that borrowing (finance leases) was only undertaken for a capital purpose and the statutory borrowing limit (The Authorised Limit) was not breached.

The Council are asked to receive the report at Appendix A.

APPENDIX A

Annual Report on the Treasury Management Service and Actual Prudential and Treasury Indicators 2012/13

Background

The Council is required by regulations issued under the Local Government Act 2003 to produce an Annual Treasury Management Report to review activities and to report the actual prudential and treasury indictors 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).

During 2012/13 the minimum reporting requirements were that the full Council should receive the following reports:

- an Annual Treasury Strategy in advance of the year - Council 05/03/2012
- a Mid Year (minimum) Treasury Update Report – Council 10/12/12
- an Annual Treasury Management Report following the year describing the activity compared to the strategy (this report).

The regulatory environment places responsibility on Members for the review and scrutiny of treasury management policy and activities. The report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by Members.

The Council confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Governance and Audit Committee (Annual Investment Strategy) and Policy and Resources Committee (Capital Programme, Mid Year and Annual Report) before they are reported to the full Council. Member training on treasury management issues was undertaken during the year in October 2012 in order to support Members' scrutiny role.

In addition, the Policy and Resources Committee has received Quarterly Treasury Management Update Reports on 27/09/2012 and 21/02/13.

Executive Summary

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:

Prudential and treasury indicators	**2011/12 Actual £'000**	**2012/13 Original £'000**	**2012/13 Revised £'000**	**2012/13 Actual £'000**
Capital expenditure	3,109	2,863	3,169	2,458
Capital Financing Requirement:	1,887	2,061	2,014	1,842
Net borrowing/(investments)	(15,460)	(9,413)	(12,935)	(15,852)
Other Financial Liabilities (Finance Leases)	821	1,250	1,250	782
External debt	0	0	0	0
Investments				
• Longer than 1 year	1,673	1,500	1,500	1,373
• Under 1 year	14,181	8,309	12,384	14,694
• Total	**15,854**	**9,809**	**13,884**	**16,067**

Other prudential and treasury indicators are to be found in the main body of this report.

The Head of Financial Services (S151 Officer) also confirms that borrowing (finance leases) was only undertaken for a capital purpose and the statutory borrowing limit (The Authorised Limit) was not breached.

The financial year 2012/13 continued to be a challenging investment environment similar to previous years, namely low investment returns, with the base rate remaining at 0.5% throughout 2012/13.

1. Introduction

1.1 This report summarises the following:

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

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

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

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

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

General Fund	2011/12 Actual £'000	2012/13 Original £'000	2012/13 Estimate £'000	2012/13 Actual £'000
Capital expenditure	**3,109**	**2,863**	**3,169**	**2,458**
Resourced by:				
Capital receipts	433	1,208	1,242	1,104
Capital grants / Contributions	2,155	656	781	505
Capital Reserves	159	512	0	0
Revenue	226	100	759	634
Finance leases	136	387	387	215
Unfinanced capital expenditure	**0**	**0**	**0**	**0**

3. The Council's Overall Borrowing Need

3.1 The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's debt position. The CFR results from the capital activity of the Council and what resources have been used to pay for the capital spend. It represents the 2012/13 unfinanced capital expenditure (see table in 2.2), and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

3.2 Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Government, through the Public Works Board [PWLB] or the money markets), or utilising temporary cash resources within the Council.

3.3 **Reducing the CFR** – The Council's 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 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.

3.4 The total CFR can also be reduced by:

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

3.5 The Council's 2012/13 MRP Policy (as required by CLG Guidance) was approved as part of the Treasury Management Strategy Report for 2012/13 on 05/03/12.

3.6 The Council's CFR for the year is shown overleaf, and represents a key prudential indicator. It 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.

Capital Financing Requirement	**31 March 2012 Actual £'000**	**31 March 2013 Budget £'000**	**31 March 2013 Revised £'000**	**31 March 2013 Actual £'000**
Opening balance	**1,982**	**1,886**	**1,887**	**1,887**
Adj for previous year financing	0	0	0	(12)
Add adjustment for the inclusion of on-balance sheet leasing arrangments	136	387	387	215
Less Finance Lease repayments/MRP/VRP*	(231)	(212)	(260)	(248)
Closing balance	**1,887**	**2,061**	**2,014**	**1,842**

* Includes voluntary application of capital receipts

3.7 Borrowing activity is constrained by prudential indicators for net borrowing and the CFR, and by the Authorised Limit.

3.8 **Net borrowing and the CFR** – in order to ensure that borrowing levels are prudent over the medium term the Council's external borrowing, net of investments, must only be for a capital purpose. This essentially means that the Council is not borrowing to support revenue expenditure. Net borrowing should not therefore, except in the short term, have exceeded the CFR for 2011/12 plus the expected changes to the CFR over 2012/13 plus the expected changes to the CFR over 2013/14 and 2014/15 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.

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.

	31 March 2012 Actual £'000	31 March 2013 Original £'000	31 March 2013 Revised £'000	31 March 2013 Actual £'000
Net borrowing position	**(15,460)**	**(9,413)**	**(12,935)**	**(15,852)**
CFR	**1,887**	**2,061**	**2,014**	**1,842**

* Budget at 31st March 2013 excluded impaired Icelandic investments .

3.9 **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.

3.10 **The Operational Boundary** – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached.

3.13 **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.

3.14 **Impact on Council Tax**

The indicator represents the incremental impact of the capital investment decision on Council Tax. The consequential net revenue cost of any capital investment funded from either borrowing or finance leases, is divided by the Council Tax base of 30,733 to reflect the impact on Council Tax (Band D).

	2012/13 £'000
Authorised Limit	**6,250**
Operational Boundary	**949**
Average gross borrowing position	**801**
Financing costs as a proportion of net revenue stream	**0.16%**
Incremental increase in Council Tax (Band D) per annum	**£1.48**

4. Treasury Position as at 31 March 2013

4.1 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:

Actual borrowing position	**31 March 2012**		**31 March 2013**	
	Principal £'000	**Average Rate**	**Principal £'000**	**Average Rate**
Fixed Interest Rate Debt	0	0%	0	0%
Variable Interest Rate Debt	0	0%	0	0%
Total Debt	**0**	**0%**	**0**	**0%**
Capital Financing Requirement £'000	**1,887**		**1,842**	
Finance lease liabilities £'000	**822**		**782**	
Over/(under) borrowing £'000	**(1,065)**		**(1,060)**	
Bank and Money Market deposits	**31 March 2012**		**31 March 2013**	
	Principal £'000	**Average Rate**	**Principal £'000**	**Average Rate**
Fixed Interest money market and bank deposits	5,452	4.03%	6,158	4.14%
Variable Interest money market and bank deposits	10,403	0.81%	10,475	1.63%
Total Investments/Cash Equivalents	**16,371**	**1.84%**	**16,633**	**1.43%**
Net borrowing position	**(15,549)**		**(15,852)**	

Note – The Bank and money market deposits position and net borrowing includes the carrying value of impaired investments in Icelandic banks at their original interest rates. Excluding impaired Icelandic bank deposits the figures are £14,118k (1.32%) at 31 March 2013 (£12,890k 1.11% at 31 March 2012)

The maturity of the investment portfolio was as follows:

	31 March 2012 Actual £'000	**2012/13 Original limits £'000**	**31 March 2013 Actual £'000**
Investments/Cash Equivalents			
Longer than 1 year	1,673	2,000	1,373
Under 1 year	14,181	n/a	14,694
Total	**15,854**	**n/a**	**16,067**

Note: Excludes bank current account balance.

5. The Strategy for 2012/13

5.1 The expectation for interest rates within the strategy for 2012/13 anticipated low but rising Bank Rate (starting in quarter 4 of 2014), with similar gradual rises in medium and longer term fixed borrowing rates over 2012/13. 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 utilise reserves for financing and not undertake borrowing to avoid the cost of holding higher levels of investments and to reduce counterparty risk.

5.2 The actual movement in gilt yields meant that PWLB rates fell during the first quarter of the year to historically very low levels. This was caused by a flight to quality into UK gilts from EU sovereign debt, and from shares, as investors became concerned about the potential for a Lehman's type crisis in financial markets, if the Greek debt crisis were to develop into a precipitous default and exit from the Euro. During the second and third quarters, rates rose gradually and agreement of a second bail out for Greece in December saw the flight to quality into gilts reverse somewhat, as confidence rose that the Eurozone crisis was finally subsiding. However, gilt yields then fell back again during February and March as Eurozone concerns returned, with the focus now shifting to Cyprus, and light to quality flows into gilts resumed. This was a volatile year PWLB rates, driven by events in the Eurozone which oscillated between crises and remedies.

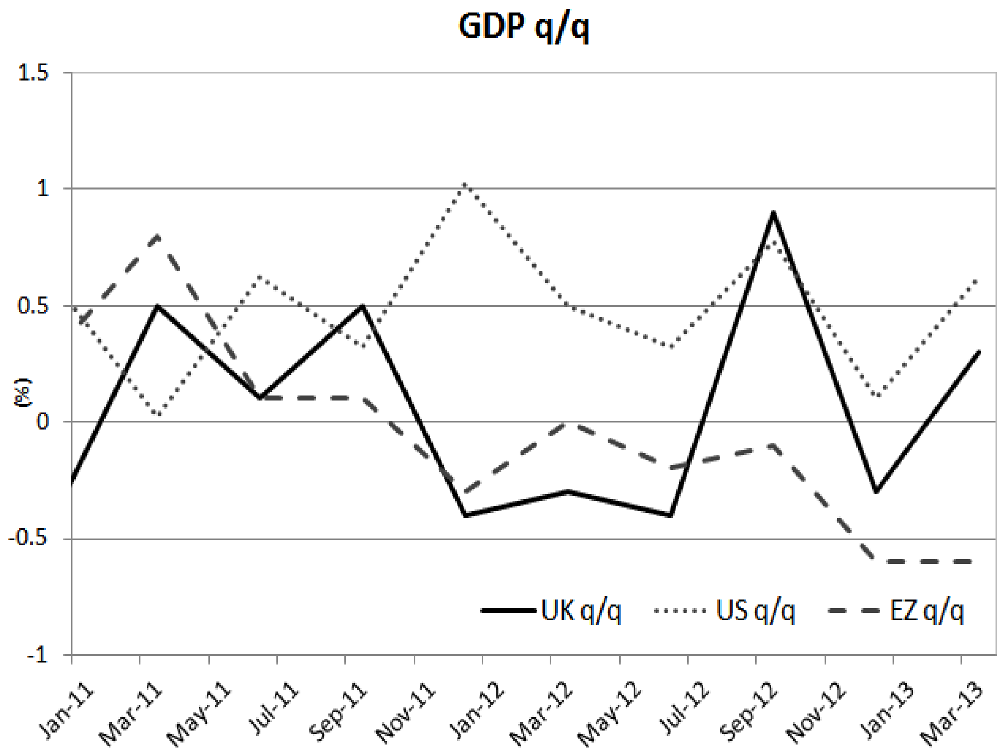
6. The Economy and Interest Rates (Sector Treasury Management Advisors)

6.1 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 had now been pushed back to a start in quarter 1 2015 at the earliest. Economic growth (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 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 year time. The EU sovereign debt crisis was an ongoing 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.

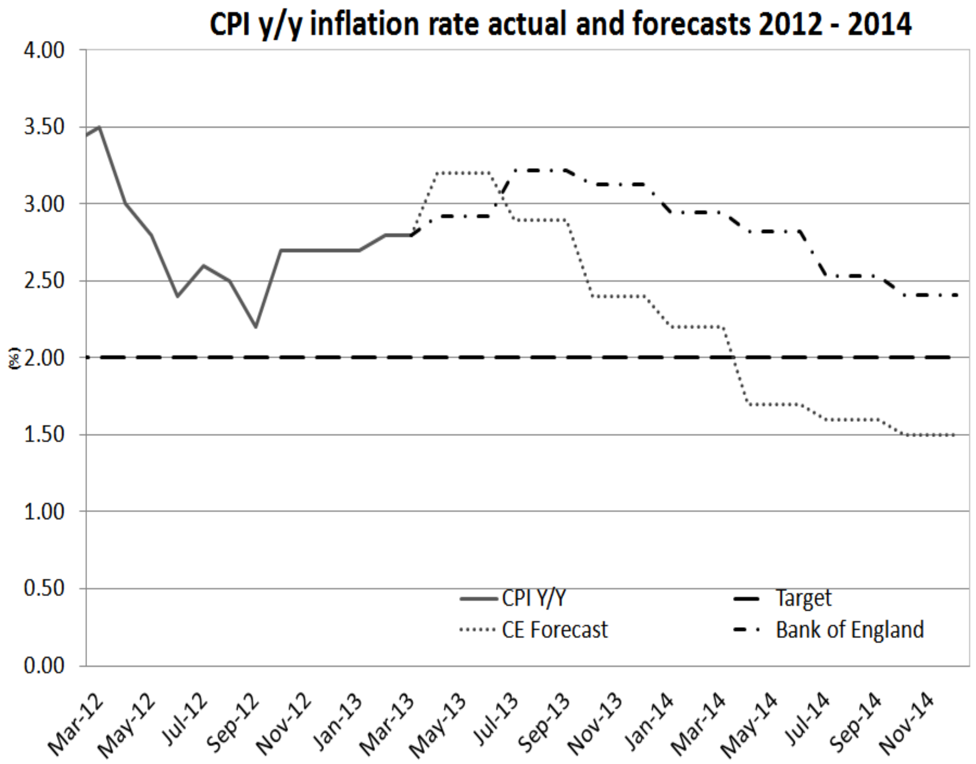
6.2 **Gilt yields** oscillated during the year as events in the ongoing Eurozone debt crisis ebbed and flowed, causing corresponding fluctuations in safe haven flows into/out of UK gilts. This, together with a further £50bn of QE in July and widely expected further QE still to come, combined to keep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

6.3 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 counter party 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.

6.4 **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.



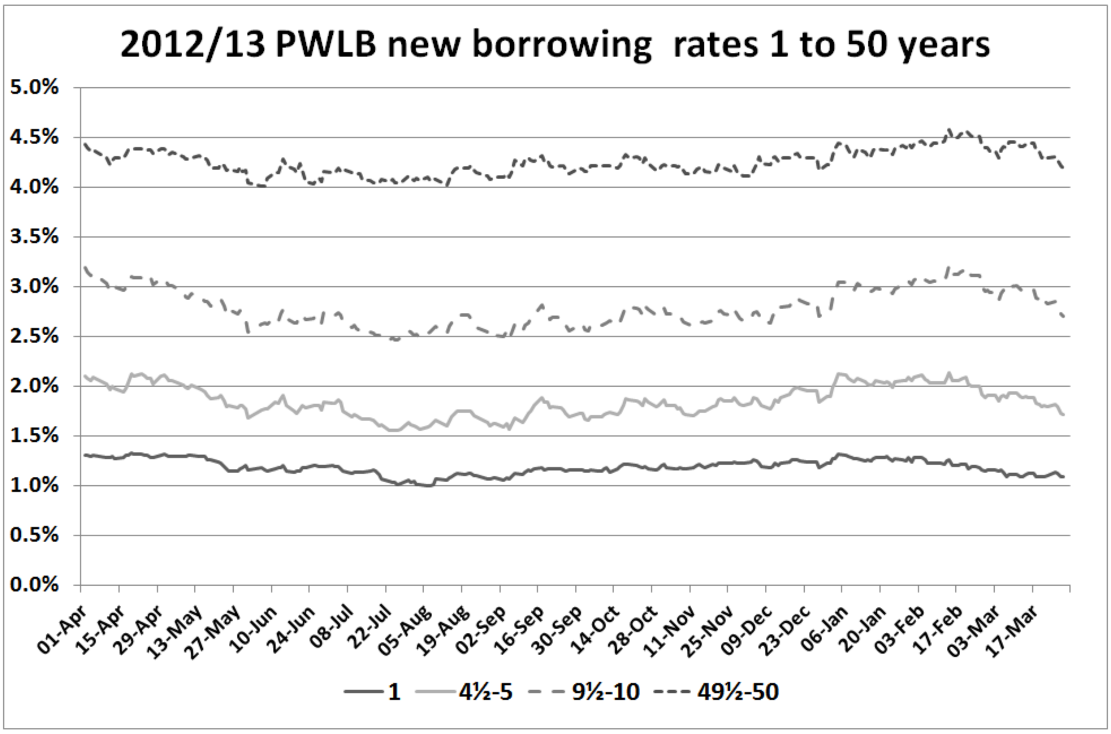
GDP q/q
1.5
1
0.5
0
-0.5
-1
(%)
UK q/q
US q/q
EZ q/q
Jan-11
Mar-11
May-11
Jul-11
Sep-11
Nov-11
Jan-12
Mar-12
May-12
Jul-12
Sep-12
Nov-12
Jan-13
Mar-13

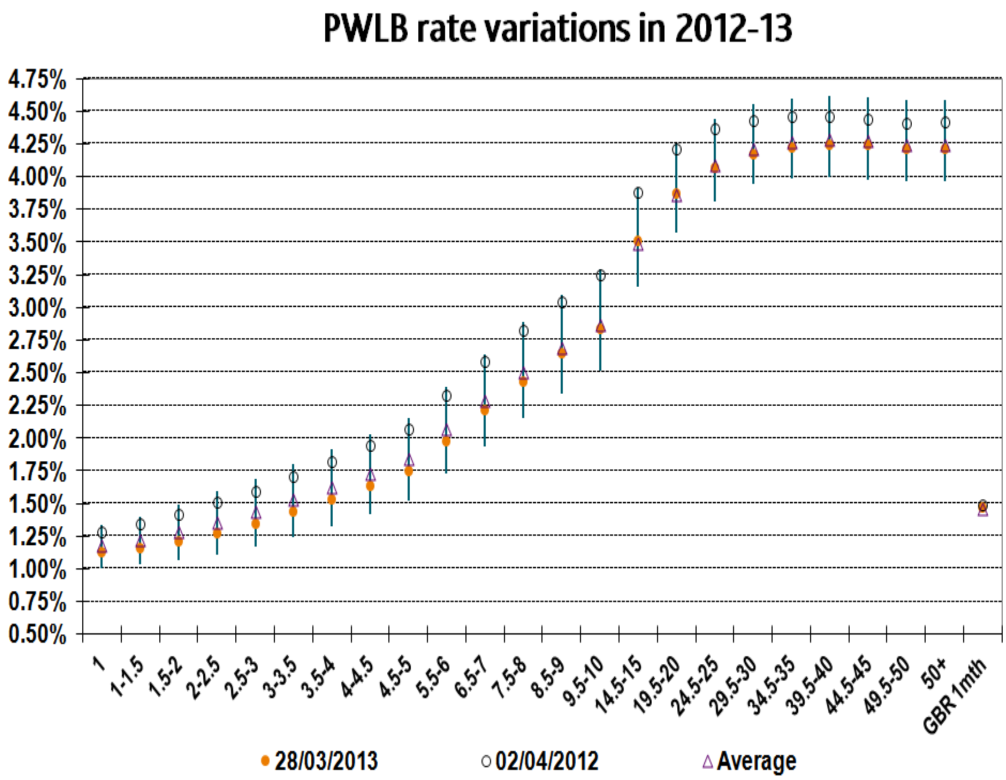


CPI y/y inflation rate actual and forecasts 2012 - 2014
4.00
3.50
3.00
2.50
2.00
1.50
1.00
0.50
0.00
(%)
CPI Y/Y
Target
CE Forecast
Bank of England
Mar-12
May-12
Jul-12
Sep-12
Nov-12
Jan-13
Mar-13
May-13
Jul-13
Sep-13
Nov-13
Jan-14
Mar-14
May-14
Jul-14
Sep-14
Nov-14

7. Borrowing Rates in 2012/13– (Sector Treasury Management Advisors)

7.1 **PWLB borrowing rates –** the graph 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.

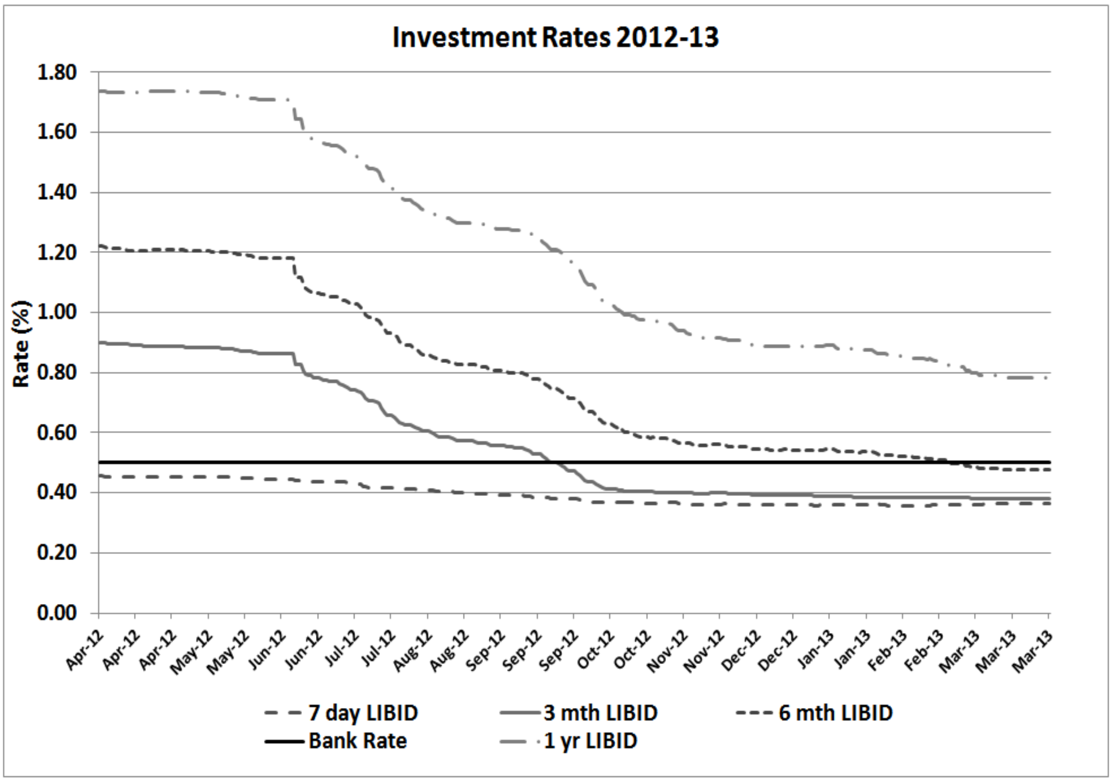




PWLB borrowing rates 2012/13 for 1 to 50 years									
	1	1-1.5	2.5-3	3.5-4	4.5-5	9.5-10	24.5-25	49.5-50	1 month variable
2/4/12	1.290%	1.350%	1.600%	1.820%	2.070%	3.250%	4.370%	4.410%	1.490%
28/3/13	1.130%	1.160%	1.350%	1.540%	1.750%	2.840%	4.070%	4.220%	1.470%
High	1.330%	1.400%	1.690%	1.910%	2.150%	3.290%	4.440%	4.590%	1.500%
Low	1.000%	1.030%	1.170%	1.320%	1.520%	2.520%	3.810%	3.960%	1.440%
Average	1.185%	1.229%	1.440%	1.631%	1.847%	2.871%	4.094%	4.250%	1.467%
Spread	0.330%	0.370%	0.520%	0.590%	0.630%	0.770%	0.630%	0.630%	0.060%
High date	20/4/12	20/4/12	20/4/12	20/4/12	20/4/12	20/2/13	20/2/13	20/2/13	18/4/12
Low date	2/8/12	2/8/12	23/7/12	23/7/12	23/7/12	23/7/12	18/7/12	1/6/12	24/10/12

8. Investment Rates in 2012/13 (Sector Treasury Management Advisors)

8.1 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.



	Money market investment rates 2012/13					
	overnight	7 day	1 month	3 month	6 month	1 year
1/4/12	0.432	0.457	0.571	0.902	1.221	1.738
31/3/13	0.361	0.365	0.371	0.382	0.478	0.784
High	0.432	0.457	0.571	0.902	1.221	1.739
Low	0.348	0.355	0.366	0.382	0.476	0.783
Average	0.382	0.394	0.428	0.564	0.782	1.207
Spread	0.084	0.102	0.205	0.520	0.744	0.956
Date	1/4/12	1/4/12	1/4/12	1/4/12	1/4/12	24/4/12
Date	31/12/12	31/1/13	29/1/13	1/3/13	13/3/13	19/3/13

9. Investment Outturn for 2012/13

9.1 **Investment Policy** – the Council's investment policy is governed by CLG guidance, which has been implemented in the annual investment strategy approved by Council on 05/03/2012. 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 and equity prices). The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

9.2 **Resources** – the Council's cash balances comprise revenue and capital resources and cash flow monies. The Council's core cash resources comprised as follows:

Balance Sheet Resources	31 March 2012 £'000	31 March 2013 £'000
Balances	**5,993**	**2,327**
Earmarked reserves	**6,206**	**10,550**
Provisions	**71**	**556**
Usable capital receipts	**3,421**	**2,485**
Total	**15,691**	**15,918**

9.3 **Investments held by the Council** – the Council maintained an average balance of £18.745m of internally managed funds (excluding Icelandic Bank deposits). The internally managed funds earned an average rate of return of 1.02%. The comparable performance indicator is the average 7-day LIBID rate, which was 0.39%. This compares with a budget assumption of £13m investment balances (excluding Icelandic deposits) earning an average rate of 1.00%.

10. Performance Measurement

10.1 One of the key requirements in the Code is the formal introduction of performance measurements 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.

10.2 The following performance indicator is measured

- **Investments – Internal returns above the 7 day LIBID rate**
  Performance excluding Icelandic deposits is reported in paragraph 9.3

10.3 Security and liquidity benchmarks are being developed and were introduced for 2012/13. These benchmarks were not exceeded at any point in the year.

11. Icelandic Bank Defaults

11.1 As previously reported the Council had the following principal deposits frozen in Icelandic banks:

Bank	Date Invested	Maturity Date	Original Amount Invested £'000	Interest Rate %
Glitnir	07/02/08	06/02/09	1,000	5.45
Heritable Bank	15/07/08	17/10/08	1,000	5.88
Landsbanki	15/07/08	17/10/08	1,000	5.88
Landsbanki	30/07/08	17/10/08	1,500	5.80
Landsbanki	15/08/08	21/11/08	1,500	5.89
Heritable Bank	17/09/08	08/10/08	1,000	5.55
Total			**7,000**	

11.2 The Icelandic Government has stated its intention to honour all its commitments as result of their banks being placed into receivership. The U.K. Government, Administrators and other agencies continue to work with the Icelandic Government to help bring this about. The Local Government Association is co-ordinating the efforts of all UK councils 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 2013/14. 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. Members will be periodically updated on the latest developments on these efforts.

11.3 The Council registered the following claim values for the original deposits and contractual interest

Bank	Original Amount Invested £'000
Glitnir	1,065,699
Heritable Bank	2,016,574
Landsbanki	4,169,184
Total	**7,251,457**

11.4 The Council had, as at the 31 March 2013, received thirteen reimbursements amounting to £1.558m in respect of the Heritable Bank claim as detailed below:

Date Received	Amount £
30/07/09	325,194
18/12/09	255,287
30/03/10	124,888
16/07/10	126,528
18/10/10	83,434
14/01/11	95,121
19/04/11	126,067
15/07/11	81,822
20/10/11	84,321
23/01/12	67,032
20/04/12	76,421
23/07/12	57,485
17/01/13	54,816
Total	**1,558,415**

11.5 The Council had, as at the 31 March 2013, received three reimbursements amounting to £1.941m in respect of the Landsbanki Island hf claim as detailed below. Included in the February 2012 payment was Icelandic krona with a value of £30,122, which is held in an interest bearing escrow account in Iceland until existing currency controls in that country are lifted**.**

Date Received	Amount £
17/02/12	1,208,594
29/05/12	496,421
09/10/12	235,990
Total	**1,941,005**

11.6 In respect of Glitnir, a recovery with a sterling value of £1.019m was paid on 16th March 2012 reflecting 100% of the approved claim *(100% assumed 2010/11)*. Included in this recovery was a payment made in Icelandic Krona (sterling value of £191k) which is being held in an interest bearing escrow account in Iceland until existing currency controls in that country are lifted.

11.7 The current situation with regards to recovery of the sums deposited varies between each institution but based on the most up to date information available at the time of preparing the 2012/13 accounts the Council made the following recovery assumptions. The information available is not definitive as to the amounts and timings of payments to be made by the administrators/receivers.

Heritable Bank

Date	Repayment	Amount£	Date	Repayment	Amount£
July 2013	2.00%	39,572	January 2014	8.80%	169,223
			Total		**208,795**

The above is based on an overall estimated recovery of 88% of the original claim of £2,016,574.

Landsbanki

Date	Repayment	Amount£	Date	Repayment	Amount£
December 2013	7.50%	291,286	December 2017	7.50%	230,609
December 2014	7.50%	274,764	December 2018	7.50%	217,529
December 2015	7.50%	259,178	December 2019	5.35%	146,368
December 2016	7.50%	244,477	**Total**		**1,664,211**

The above is based on an estimated recovery of 100% of the claim.