APPENDIX 1

BRIDGEND COUNTY BOROUGH COUNCIL

REPORT TO COUNCIL

17 OCTOBER 2012

REPORT OF THE SECTION 151 OFFICER

ANNUAL TREASURY MANAGEMENT REPORT 2011/12

1. Purpose of the Report

1.1 The purpose of the Annual Treasury Management Report is to:-

- Comply with the requirement of the Chartered Institute of Public Finance and Accountancy 'Treasury Management in the Public Services: Code of Practice' (the Code) to report an overview of treasury activities for the preceding financial year;

- Report on the actual Treasury Management and Prudential indicators for 2011/12.

2. Connection to Corporate Improvement Objectives/Other Corporate Priorities

2.1 The Annual Treasury Management Report is integral to the delivery of the Corporate Improvement Objectives as the allocation of resources determines the extent to which the corporate objectives can be delivered.

3. Background

3.1 The Council's Treasury Management activities are regulated by the Local Government Act 2003 which provides the powers to borrow and invest as well as providing controls and limits on this activity.

3.2 Statutory Instrument (SI) 3239 (W319) 2003, as amended, develops the controls and powers within the Act. This requires the Council to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities and to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services.

3.3 The Council formally adopted the Code in April 2004 (and subsequently also adopted the changes to the Code in the 2009 revised edition) and works within the regulatory requirements which limit the level of risk associated with its treasury management activities. Its adoption and implementation of both the Prudential Code and the Code of Practice for Treasury Management means that its capital expenditure is prudent, affordable and sustainable, and its treasury practices demonstrate a low risk approach.

3.4 A primary requirement of the Code is the formulation and the agreement by the Council of a Treasury Management Policy Statement which sets out the Council's and Chief Financial Officer's responsibilities, delegation, and reporting arrangements. Council approved the Treasury Management Policy Statement 2011/12 on 23 February 2011. Treasury management in this context is defined as:

"*The management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.*"

3.5 This Annual Report covers the following areas:

- The Council's treasury position for 2011/12
- Borrowing and Debt Strategy 2011/12
- Borrowing Outturn 2011/12
- Investment Strategy 2011/12
- Investment Outturn 2011/12
- Reporting Arrangements 2011/12
- Review of the Treasury Policy Statement 2011/12
- Treasury Risk Management
- Performance Measurement
- Treasury Management and Prudential Indicators 2011/12

4. Current Situation

4.1.1 The treasury position for 2011/12:

		Principal As at 01/04/11 £m	Average Rate %	Principal As at 31/03/12 £m	Average Rate %
Fixed rate long term funding	PWLB*	72.68	4.73	77.66	4.70
	Market	4.00	7.47	1.00	8.28
Variable rate long term funding	PWLB*	-	-	-	
	Market (LOBO)	19.25	4.65	19.25	4.65
Total Long Term Borrowing**		**95.93**	**4.83**	**97.91**	**4.73**
Other Long Term Liabilities**		23.94	**-**	22.25	
Other Short Term Liabilities		1.26	**-**	1.37	
Total Other liabilities(details in section 4.1.4**)**		**25.20**		**23.62**	
Short Term Borrowing (Fixed rate)		-	-	-	-
TOTAL DEBT		**121.13**		**121.53**	
Fixed rate investments		13.00	1.16	26.40	0.66
Variable rate investments		6.20	0.71	3.00	0.56
TOTAL INVESTMENTS***		**19.20**	**1.02**	29.40	0.65

* Public Works Loan Board (PWLB)

** Long term borrowing/liabilities include all instruments with an initial term of 365 days or more. This includes £1m Market Loan due to be repaid in December 2012 and PWLB debt of £16k with less than a year to maturity at 01/04/12

*** The investment totals include instant access deposit accounts which are included as “Cash” in the Council’s balance sheet in the Statement of Accounts and also investments shown as “Cash Equivalents” in the Council’s balance sheet that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value

Fixed rate in the above table includes instruments which are due to mature in the year

4.1.2 It should be noted that the accounting practice required to be followed by the Council requires financial instruments in the accounts (debt and investments) to be measured in a method compliant with International Financial Reporting Standards (IFRS). The figures shown in the above table and throughout the report are based on the actual amounts borrowed and invested and so may differ from those in the Statement of Accounts which include accrued interest or are stated at fair value in different instances.

4.1.3 Details of the maturity of the £97.91m long term borrowing outstanding as at 31 March 2012 are detailed in Appendix A. The £19.25m showing as maturing in 2054, relates to Lender’s Option Borrower’s Option (LOBO) loans which may be re-scheduled in advance of this maturity date. The LOBO rate and term may vary in the future depending upon the prevailing market rates, the lender exercising their option to increase rates at one of the bi-annual trigger points (the next trigger date being January 2013) and therefore, the Council being given the option to accept the increase or to repay the loan without incurring a penalty.

4.1.4 The other liabilities figure of £23.62m at 31 March 2012 includes £20.63m for the Council's Private Finance Initiative (PFI) arrangement (for the provision of a Secondary School in Maesteg), £1m invested on behalf of Bridgend Football club to provide alternative facilities which is held in an Escrow account (money held in trust pending the fulfilment of conditions in a contract) and £0.5m Invest to Save monies (interest free loans received from the Welsh Government).

4.1.5 The Council's Treasury Management Advisors are currently Sterling Consultancy Services (SCS) and the services provided to the Council include:-

- A review of treasury management procedures and practices;
- On-going debt management advice including advice on the timing of new borrowing and the restructuring of debt;
- Investment advice including advice on the credit ratings of counterparties;
- Economic and interest rate forecasting.

The contract expired on the 31 August 2012 and a tender exercise was conducted to award a new contract and SCS have been awarded a new one year contract from 1 September 2012, with the option of an annual extension to a maximum of four years.

4.2 Borrowing and Debt Strategy for 2011/12

4.2.1 <u>The Expectation for Interest Rates (extract from Treasury Policy Statement 11/12 February 2011)</u>

The interest rate views, incorporated in the Council's Treasury Policy Statement for 2011/12, were based upon officers' views supported by a selection of City forecasts provided by Sterling, our Treasury Management Advisers.

This view was seeing the Bank Rate remaining at 0.50% for the first part of 2011, and although rising thereafter, remaining below "normal" levels for the remainder of 2011/12. Longer-term interest rates are likely to rise slowly as the economic situation improves and government borrowing increases, but the rate of increase may be tempered by the coalition government's austerity measures and the safe haven status of UK government debt.

4.2.2 <u>The Adopted Borrowing and Debt Strategy 2011/12</u>

The agreed strategy put to Council based on the above forecast was that due to the growing uncertainty over interest rates, the risks associated with treasury activity were increased. As a result, the Council would take a cautious approach to its treasury strategy.

The Section 151 Officer, under delegated powers, will take the most appropriate form of borrowing depending on the prevailing interest rates at the time, taking into account the risks forecast. Longer term fixed rates will be considered if borrowing levels remain relatively low.

The Council assumed long term borrowing rates of 5.30% in the Treasury Policy Statement for 2011/12.

4.3 Borrowing Outturn 2011/12

4.3.1 The base rate started the financial year at 0.50% and remained at that level throughout 2011/12.

4.3.2 No debt rescheduling was undertaken during 2011/12 as there were no significant savings to be made, however, the loan portfolio will be reviewed during 2012/13 for any potential savings. During the year the total long term borrowing increased from 95.93m to 97.91m as a £3m market bond matured (rate of 7.20%) and a new £5m PWLB loan being raised (rate of 4.23%) in March 2012 resulting in the average rate of long term borrowing reducing from 4.83% to 4.73%.

4.3.3 Short term (or temporary) borrowing totalling £12.8m for 2011/12 was undertaken during June, September and February to cover shortfalls in cash due to timing differences in expenditure payments and income received, all of which was repaid within a few weeks of being borrowed.

4.4 Investment Strategy 2011/12

4.4.1 The purpose of the Investment Strategy is to set out the policies for giving priority to the security (protecting the capital sum from loss) and liquidity (keeping the money readily available for expenditure when needed) of the Council's investments. The Strategy deals with the credit ratings defined for each category of specified investments, the prudential use of non-specified investments and the liquidity of investments. The Council has regard to the Welsh Government's Guidance on Local Government Investments 2010 and CIPFA's Treasury Management in Public Services: Code of Practice and Cross Sectoral Guidance Notes ("CIPFA TM Code").

4.4.2 The Annual Investment Strategy incorporated in the Council's Treasury Management Policy Statement 2011/12 states which investments the Council may use for the prudent management of its treasury balances during the financial year under the heads of specified and non-specified investments.

4.4.3 The Council uses long-term credit ratings from the three main rating agencies Fitch Ratings Ltd., Moody's Investors Service Inc. and Standard & Poor's Financial Services LLC to assess the risk of investment default. The lowest available credit rating of these three agencies will be used to determine credit quality. The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will be given to other available information on the credit quality of banks and building societies, including credit default swap prices, financial statements and rating agency reports and other factors such as whether the counterparty has any explicit or implicit government support. This has been endorsed by the revised edition of the Treasury Management Code of Practice and the Welsh Government's Guidance on Local Authority Investments which states that authorities should not place an over-reliance on credit ratings. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the selected criteria.

4.4.4 A half year review of the Annual Investment Strategy will be undertaken and any changes will be reported to Council.

4.5 Investment Outturn 2011/12

4.5.1 On a day to day basis the Council potentially has surplus cash balances arising from the cash-flow e.g. timing differences between grants being received and making various payments. These are invested on the market via brokers, direct with the institution or held in instant access business reserve accounts. The Council usually invests for a range of periods dependent on cash flow requirements and the interest rates on offer having regard to the Investment Strategy.

4.5.2 During 2011/12 the bank rate remained at 0.50% throughout the year. Whilst some existing investments provided some protection from lower rates, the Council's investment strategy was weighted towards security, so deposits were mainly placed for shorter periods in suitably rated financial institutions and government entities. During the final quarter of the year, in light of events with the Eurozone crisis and the resultant effect on independently assessed credit ratings, the basis underlying which financial institutions are selected for investment was reviewed. As a result, new deposits were placed for shorter periods with the UK Debt Management Office (DMO - Executive Agency of UK Government), other local authorities and with the Council's bankers in an instant access account. This can be seen from the average rate on return on investments dropping from 1.02% at the 1 April 2011 to 0.65% at the 31 March 2012 as older deposits at higher interest rates matured but the shorter period deposits protected the principal sum invested.

4.5.3 As shown in section 4.1.1, the balance on investments at 31 March 2012 was £29.40m and all these investments were held with UK registered banks and building societies, local authorities and one with the DMO. Of these investments, £24.90m were held in fixed deposits with maturity dates during the first quarter of 2012/13 and a further £1.5m to be repaid in the second quarter of 2012/13. The remaining £3m balance was held in an instant access account with the Council's bankers. Also included in the £29.40m is £1m invested on behalf of Bridgend Football club to provide alternative facilities which is held in an Escrow account (money held in trust pending the fulfilment of conditions in a contract).

4.6 Reporting Arrangements 2011/12

4.6.1 CIPFA's Code of Practice for Treasury Management requires that the Council reports on its treasury management as an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close all to Full Council. The Council also produces quarterly monitoring reports that go to Cabinet as Information Reports. The Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to Cabinet, and for the execution and administration of treasury management decisions to the Section 151 Officer, who will act in accordance with the organisation's policy statement, and CIPFA's Standard of Professional Practice on Treasury Management.

4.6.2 In addition to the Code of Practice, the Welsh Government has issued Guidance on Local Government Investments which require local authorities to report their Annual Investment Strategy.

4.6.3 To ensure effective scrutiny of treasury management in accordance with the Treasury Management Policy Statement, Audit Committee has been nominated to be responsible for ensuring effective scrutiny of the treasury management strategy and policies. The Financial Procedure Rules (FPR's) were amended and approved by Council on 19 October 2011 to reflect the role of Audit Committee. In addition, the Constitution Part 4 Rule 17.8 of the FPR's was amended to reflect how the Committee proposed to discharge the function by establishing a Treasury Management Sub-committee as reported to Audit Committee on 10 November 2011. A meeting of the Sub-Committee was held on 7 February 2012 and the Members scrutinised the Treasury Management Policy Statement 2012/13 including the Annual Investment Strategy 2012/13 and Treasury Management and Prudential Indicators 2012/13 to 2014/15 and agreed the submission to Council for approval.

4.7 Review of the Treasury Policy Statement 2011/12

4.7.1 As a result of the mid year review required by CIPFA's Code of Practice for Treasury Management it was not deemed necessary to make many changes to the main parts of the Treasury Management Policy Statement 2011/12, however, some minor revisions were made to the Investment Strategy included within this Statement. This enabled increased flexibility in an ever changing financial market to increase the investment opportunities available to the Council whilst still maintaining security. The main changes to the Investment Strategy 2011/12 approved by Council on 16 November 2011 are detailed below:

- UK Registered Banks and Building Societies holding long term credit ratings no lower than A (or equivalent) for deposits of one month or less and A- (or equivalent) for instant access deposits both with a counterparty limit of £2m introduced. Both ratings are considered to be within the "Strong Investment Grade";

- U.K. Local Authorities counterparty limit to be increased from £5m to £10m. Unrated local authorities are assumed to hold an AAA rating.

4.8 Treasury Risk Management

4.8.1 The Council's overall risk management procedures focus on the unpredictability of financial markets, and implementing restrictions to minimise these risks. The procedures for risk management are set out through a legal framework set out in the Local Government Act 2003 and the associated regulations. These require the Council to comply with the CIPFA Prudential Code, the CIPFA Code of Practice Treasury Management in the Public Services and Investment Guidance issued through the Act. The Council formally adopted the Code in April 2004 (and the changes to the Code in the 2009 revised edition) and the regulatory requirements which limit the level of risk associated with its treasury management activities.

4.8.2 The Council's activities expose it to a variety of financial risks, the key risks are:

- Credit risk – the possibility that other parties might fail to pay amounts due to the Council;
- Liquidity risk – the possibility that the Council might not have funds available to meet its commitments to make payments;
- Re-financing and Maturity risk – the possibility that the Council might be required to renew a financial instrument on maturity at disadvantageous interest rates or terms;
- Market risk - the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates movements.

4.8.3 The Council's primary objective for the management of its investments is to give priority to the security and liquidity of its funds before seeking the best rate of return. The majority of its surplus cash is therefore mainly placed for shorter periods in suitably rated financial institutions and government entities as detailed above in section 4.5. This has therefore resulted in more of the investment portfolio being moved into investment instruments with lower rates of return but higher security and liquidity, resulting in a fall in total investment earnings compared to previous years.

4.8.4 The Council's primary objective for the management of its debt is to ensure its long term affordability. The majority of its loans have therefore been borrowed from the Public Works Loan Board at long term fixed rates of interest.

4.9 Performance Measurement

4.9.1 The Code of Practice on Treasury Management requires the Council to set performance indicators to assess the adequacy of the treasury function over the year. These are distinct historic indicators as opposed to the Treasury Management and Prudential Indicators (section 4.10) which are predominantly forward looking.

4.9.2 One debt performance indicator is where the average portfolio rate of interest (as detailed in Section 4.1) is compared to an appropriate average available. The average long term borrowing rate for 2011/12 was 4.83% and at 31 March 2012, 79% of this was made up of Public Works Loan Board (PWLB) loans with an average rate of 4.70%. Comparable performance indicators are shown below:

Bridgend CBC Average Rate of PWLB Debt at 31/03/12	Welsh Unitary Local Authorities Average Rate for outstanding PWLB Debt at 31/03/12	All UK Authorities Average Rate for outstanding PWLB Debt at 31/03/12
4.70%	5.66%	4.62%
	-0.96%	+0.08%

4.9.3 The average rate on investments for 2011/12 was 0.78% and at 31 March 2012 was 0.65%. A comparable performance indicator is the average 7 day LIBID (London Inter Bank Bid Rate) and can also be benchmarked against the average Bank Rate. The first table below shows the average rate of investments for 2011/12 against these two benchmark indicators and also the average 3 month LIBID for comparative purposes and the second table shows the actual rates as at 31/03/12:-

Bridgend CBC Average Rate of Return on Investments 2011/12	Average 7 day LIBID (London Inter-Bank Bid rate) 2011/12	Average 3 month LIBID (London Inter-Bank Bid rate) 2011/12	Average Bank Rate 2011/12
0.78%	0.48%	0.82%	0.50%
	+0.30%	-0.04%	+0.28%
Bridgend CBC Average Rate of Return on Investments as at 31/03/12	**7 day LIBID (London Inter-Bank Bid rate) as at 31/03/12**	**3 month LIBID (London Inter-Bank Bid rate) as at 31/03/12**	**Bank Rate 2011/12 as at 31/03/12**
0.65%	0.46%	0.90%	0.50%
	+0.19%	-0.25%	+0.15%

4.10 Treasury Management & Prudential Indicators 2011/12

4.10.1 The Treasury Management Code and Prudential Code require the Council to set and report on a number of Treasury Management Indicators. However, the Council has decided to report on all indicators so the Prudential Indicators are also included within this report. Details are shown in **Appendix B** of the estimated prudential indicators for 2011/12 as detailed in the Treasury Policy Statement 2011/12 approved by Council 23 February 2011, the revised projection (if applicable) as set out in the Treasury Policy Statement 2012/13 approved by Council 22 February 2012, and the actual indicators for 2011/12.

4.10.2 During the financial year 2011/12, the Council operated within the treasury limits and prudential indicators set out in the Council's Treasury Policy Statement.

5. Effect upon Policy Framework & Procedure rules

5.1 As required by Financial Procedure Rule 17.3, all investments and borrowing transactions have been undertaken in accordance with the Treasury Management Strategy Statement 2011/12 as approved by Council.

6. Equality Impact Assessment

6.1 There are no implications in relation to age; disability; gender and transgender; race; religion or belief and non-belief; sexual orientation in this report.

7. Financial Implications

7.1 The financial implications are reflected within the report.

8. Recommendation

8.1 It is recommended that:

- Council note the treasury management activities for 2011/12;
- Council note the actual Treasury Management and Prudential Indicators for 2011/12.

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28 August 2012

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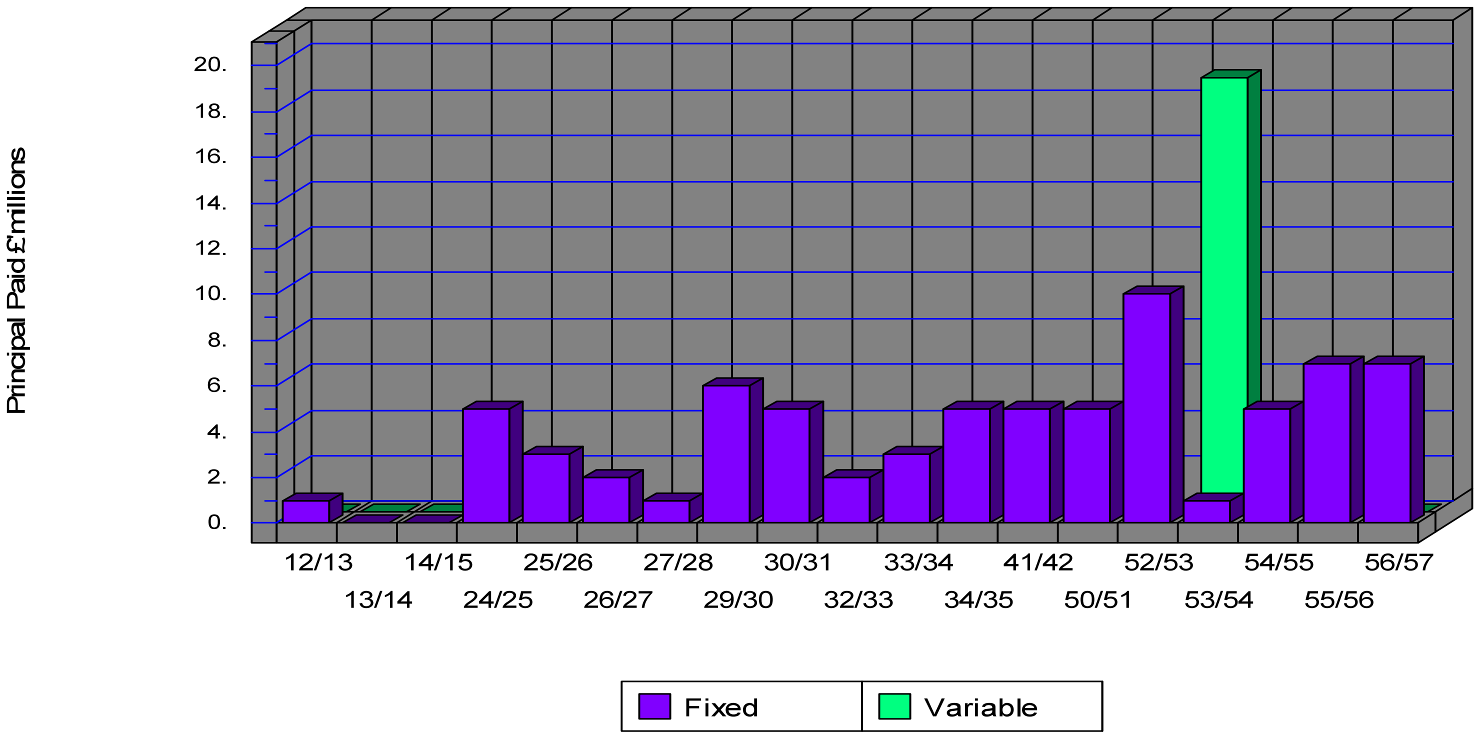
Background documents:

Treasury Policy Statement 2011/12
Treasury Policy Statement 2012/13

APPENDIX A

Long Term Borrowing Outstanding – Principal Due to be paid

MATURITY ANALYSIS - 2012 to 2057



1 Treasury Management Indicators 2011/12

1.1 The following indicators now form part of the CIPFA Code of Practice on Treasury Management .

The Council needs to set the upper limits to its exposure to the effects of changes in interest rates. There are two Treasury Management indicators that relate to both fixed interest rates and variable interest rates. These limits have been calculated with reference to the net outstanding principal sums.

No.		Treasury Policy Statement 2011/12 Upper £m	Revised Projection (as per Treasury Policy Statement 2012/13 Upper £m	Actual Outstanding 31/03/2012 £m
	Total Projected Principal Outstanding on Borrowing	97.91	97.91	**97.91**
	Total Projected Principal Outstanding on Investments	0.00	12.00	**29.40**
	Net Principal Outstanding	**97.91**	**85.91**	**68.51**
1.	**Limits on fixed interest rates (net principal) exposure**	118.00	118.00	
2.	**Limits on variable interest rates Exposure (net principal) exposure**	40.00	40.00	
	Fixed interest rate Exposure (net principal) 31/03/12			**52.26**
	Variable interest rate Exposure (net principal) 31/03/12			**16.25**

The Section 151 Officer managed interest rate exposure between these limits during the year and as shown above the net borrowing position for fixed and variable rates was within the limits set.

1.2 A further indicator for Treasury Management is the amount of projected borrowing that is fixed rate, maturing in each period as a percentage of total projected fixed rate borrowing. This indicator is set to control the Council’s exposure to refinancing risk and has been set to allow for the possible restructuring of long term debt where this is expected to lead to an overall saving or reduction in risk.

No.	Maturity structure of fixed rate borrowing 2011/12	Treasury Policy Statement 2011/12 Upper limit	Treasury Policy Statement 2011/12 Lower limit	Actual Outstanding 31/03/12
3.	Under 12 months	50%	0%	**21%**
	12 months and within 24 months	25%	0%	**0%**
	24 months and within 5 years	50%	0%	**0%**
	5 years and within 10 years	60%	0%	**0%**
	10 years and above	100%	40%	**79%**

1.3 The **Upper Limit for Total Principal Sums invested for more than 364 days** indicator controls the amount of longer term investments which mature beyond the period end. This is set to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments.

No.		Treasury Policy Statement 2011/12 £m	Actual Principal Invested During 2011/12 £m
4.	**Upper Limit for Total Principal Sums Invested for more than 364 days**	15	**1.5**

The actual for all three treasury management indicators above are within the accepted range.

2 PRUDENTIAL INDICATORS 2011/12

The following Prudential Indicators are required to be set and approved by Council in accordance with the Prudential Code. Council is also required to formally adopt CIPFA's Treasury Management Code.

The following Prudential Indicators are based on the Council's capital programme which is subject to change.

2.1 Prudential Indicators for Prudence

2.1.1 The Council's capital expenditure plans are summarised below and this forms the first prudential indicator for Prudence. The total capital expenditure was funded from capital grants and contributions, capital receipts and revenue with the remainder being the **Net Financing Need for the Financial Year** to be met from borrowing.

No.	Prudential indicators For Prudence 2011/12	Estimate Treasury Policy Statement 2011/12 £'000	Revised Projection (as per Treasury Policy Statement 2012/13) £'000	Actual 2011/12 £'000
1	**Estimates of Capital Expenditure**			
	Non – HRA	32,528	30,207	**28,304**
	Total Capital Expenditure	**32,528**	**30,207**	**28,304**
	Financed by :-			
	Capital Grants and Contributions	13,877	20,071	**21,464**
	Capital Receipts	5,418	2,948	**0**
	Revenue	0	35	**775**
	Net Financing Need for Year	**13,233**	**7,153**	**6,065**

The capital expenditure figures have changed from the Treasury Policy Statement as some capital schemes slipped into the following year, budgets were revised and additional grant approvals were also received. Therefore, the Net Financing Need for the year has changed from the original estimate as prudential borrowing and capital receipts which would have been used to fund these schemes has reduced from the original forecast.

2.1.2 The second Prudential Indicator is the **Capital Financing Requirement (CFR)** for the Council. This shows the total outstanding capital expenditure that has not been funded from either revenue or other capital resources. It is derived from the actual Balance Sheet of the Council. It is essentially a measure of the underlying need to borrow for capital purposes and forms the basis of the charge to the Council Fund under the Prudential Code system.

The process for charging the capital expenditure to revenue is a statutory requirement and is called the Minimum Revenue Provision (MRP). The actual MRP charge needs to be prudent – the Council has deemed this to be set at 4% of the opening Capital Financing Requirement after adjustments. The MRP requirement for the PFI Scheme, Finance Leases and the Innovation Centre is equivalent to the write down of the liability for the year and was met from existing budgets.
In addition to this, for all unsupported borrowing exercised under the Prudential Code (used to fund the purchase of assets for directorates) the MRP policy is based on the Asset Life Method. The Voluntary Revenue Provision (VRP) is at equal annual instalments over the life of the asset which is met from existing revenue budgets. The charge for this is in the year that the asset becomes operational.

No.	Prudential indicators For Prudence	Estimate Treasury Policy Statement 2011/12 £'000	Revised Projection (as per Treasury Policy Statement 2012/13 £'000	Actual 2011/12 £'000
2	**Capital Financing Requirement (CFR)**			
	Opening CFR (1 April 2010) excluding PFI	140,560	140,064	140,064
	Opening PFI CFR	21,008	21,008	21,008
	Opening Finance Lease CFR	1,299	404	404
	Opening Innovation Centre CFR	-	895	895
	Total Opening CFR	162,867	**162,371**	**162,371**
	Movement in CFR excluding PFI & other liabilities	7,308	1,456	**368**
	Movement in PFI CFR	(381)	(381)	**(381)**
	Movement in Finance Lease CFR	(179)	(156)	**(156)**
	Movement in Innovation Centre CFR	-	(24)	**(24)**
	Total Movement in CFR	**6,748**	**895**	**(193)**
	Closing CFR (31 March 2011)	**169,615**	**163,266**	**162,178**
	Movement in CFR represented by :-			
	Net Financing Need for Year (above)	13,233	7,153	6,065
	Minimum and Voluntary Revenue Provisions*	(6,485)	(6,258)	(6,258)
	Total Movement	**6,748**	**895**	**(193)**

*Minimum Revenue Provision (MRP) and Voluntary Revenue Provision represent the revenue charge for the repayment of debt and includes MRP for the Public Finance Initiative (PFI), Finance Leases and the Innovation Centre.

The reason for the large difference in the Capital Financing Requirement figures from the original estimate in the Treasury Policy Statement 2011/12 and the actual is due to the change in profile of Prudential Borrowing due to additional funding which was utilised and the slippage of schemes into 2012/13.

2.1.3 The Council's borrowing at the 31 March 2012 was £97,914k as detailed above in section 4.1, the Treasury Position. External Borrowing can arise as a result of both capital and revenue expenditure and timing of cash flows. Because the Council has an integrated Treasury Management Strategy there is no association between individual loans and particular types of expenditure. Therefore, the Capital Financing Requirement and actual external borrowing can be very different.

The **Net External Borrowing** position (Borrowing net of Investments) is shown below.

No.	Prudential indicators For Prudence 2011/12	Estimate Treasury Policy Statement 2011/12 £'000	Revised Projection (as per Treasury Policy Statement 2012/13) £'000	Actual 2011/12 £'000
3	**Net External Borrowing**			
	External Borrowing	97,914	97,914	**97,914**
	External Investments*	0	12,000	**29,400**
	Total Net External Borrowing	97,914	85,914	**68,514**

*The investment totals include instant access deposit accounts which are classed as "Cash Equivalents" in the Council's balance sheet in the Statement of Accounts

The reason for the change from the estimated indicator is because earlier in the year it was forecast that investments would be lower at 31 March 2012 but this changed due to a reduction in the Net Financing Need for the Year as detailed above and the settlement of some claims during the final quarter of 2011/12 financial year slipping into the first quarter of 2012/13.

2.2 Limits to Borrowing Activity

2.2.1 Within the Prudential Indicators, there are a number of key indicators to ensure the Council operates its activities within well-defined limits. One key control is to ensure that over the medium term, net borrowing will only be for a capital purpose. The Council needs to ensure that the Net External Borrowing does not, except in the short term, exceed the Capital Financing Requirement for 2011/12. The table below shows that the Council has complied with this requirement.

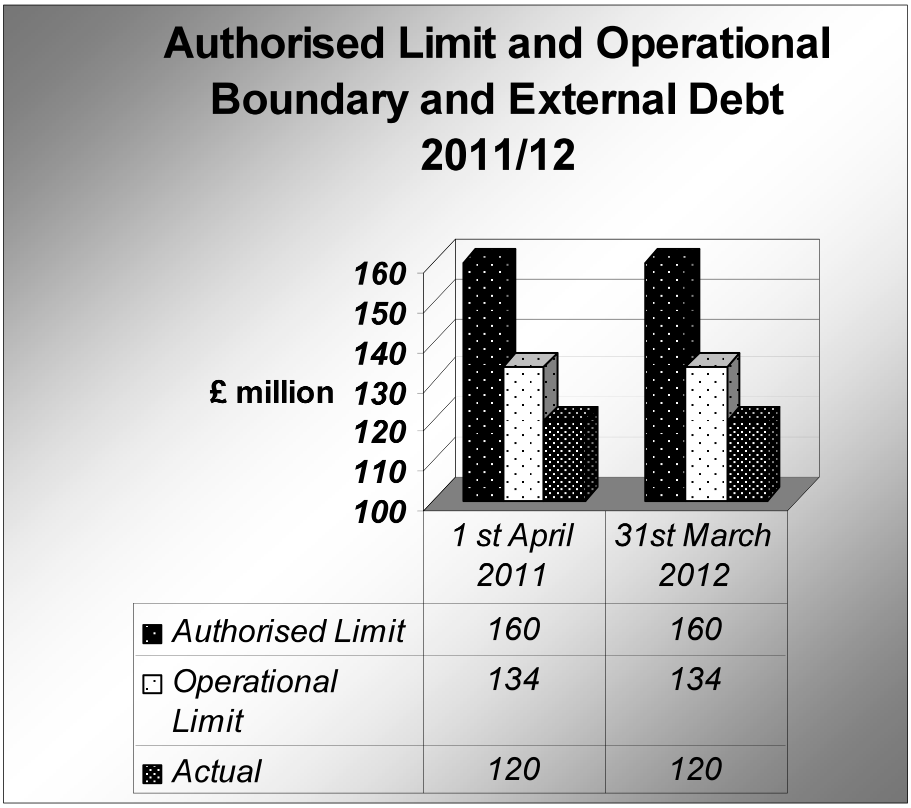
No.	Prudential indicators For Prudence 2011/12	Estimate Treasury Policy Statement 2011/12 £'000	Revised Projection (as per Treasury Policy Statement 2012/13) £'000	Actual 2011/12 £'000
4	**Net Borrowing & the CFR**			
	Total Net External Borrowing	97,914	85,914	**68,514**
	Closing CFR (31st March)	169,615	163,266	**162,178**

2.2.2 A further two Prudential Indicators control the Council's overall level of debt to support Capital Expenditure. Indicators 5 and 6 are detailed below and include borrowing and other long term liabilities:-

- **The Authorised Limit for External Debt**– this represents the limit beyond which borrowing is prohibited. It reflects a level of borrowing that could not be sustained even though it would be affordable in the short term.

- **The Operational Boundary for External Debt** – this is not an actual limit and actual borrowing can vary around this boundary during the year. It is based on the probable external debt during the course of the year.

The chart below details the actual level of debt (borrowing and long term liabilities) at the 1 April 2011 and 31 March 2012 in comparison to the Authorised Limit and Operational Boundary for External Debt set when the Treasury Policy Statement 2011/12 was prepared. As shown the Council remained well within both limits.



2.3 Prudential Indicators for Affordability

The Prudential Code Indicators Numbered 1 to 6 covers the overall controls on borrowing and financing of capital expenditure within the Council. The second suite of indicators detailed below assesses the affordability of capital investment plans and the impact of capital decisions on the Council's overall finances.

2.3.1 The indicator **Ratio of Financing Costs to Net Revenue Stream** demonstrates the trend in the cost of capital against the Total Revenue amount to be met from local taxpayers and the amount provided by the Assembly in the form of Revenue Support Grant. The estimates of capital financing costs include interest payable and receivable on Treasury Management activities and the Minimum Revenue Provision charged to the Comprehensive Income and

Expenditure Statement. The revenue stream is the amount to be met from government grants and local taxpayers.

No.	Prudential Indicators for Affordability 2011/12	Estimate Treasury Policy Statement 2011/12 £'000	Revised Projection Treasury Policy Statement 2012/13 £'000	Actual 2011/12 £'000
7.	**Ratio of Financing Costs to Net Revenue Stream**			
	Ratio	5.64%	5.31%	**5.16%**

2.3.2 The indicator of the **Incremental Impact of Capital Investment Decisions on Council Tax** identifies the estimate of the incremental impact to the Council Tax from the capital expenditure proposals, particularly changes in borrowing requirements that have occurred since the Capital Programme was approved for the year. This is a purely notional calculation designed to show the effect of changes in capital investment decisions.

No.	Incremental Impact of Capital Investment Decisions on Council Tax	Estimate Treasury Policy Statement 2011/12	Revised Projection Treasury Policy Statement 2012/13	Actual 2011/12
8.	**Increase in Band D Council Tax as per Capital Programme**	£2.24	£2.24	**£2.18**