Inverclyde council

AGENDA ITEM NO. 7

Report To:	**Policy & Resources Committee**	**Date:**	**16 November 2010**
Report By:	**Chief Financial Officer**	**Report No:**	**FIN/75/10/AP/KJ**
Contact Officer:	**Alan Puckrin**	**Contact No:**	**01475 712223**

Subject: TREASURY MANAGEMENT – MID-YEAR REVIEW REPORT 2010/11

1.0 PURPOSE

1.1 The purpose of this report is to advise members of the operation of the treasury function and its activities at the mid year of 2010/11 in compliance with the revised CIPFA Code of Practice on Treasury Management with which the Council complies.

2.0 SUMMARY

2.1 As at 30th September 2010 the Council had debt of £198,702,939 and investments of £64,226,814.

2.2 The average rate of return achieved on investments during the first half of 2010/11 was 1.18% which exceeds the benchmark return rate for the period of 0.42% by 0.76%.

2.3 During the period the Council operated within the treasury limits and Prudential and Treasury Indicators set out in the Council's Treasury Policy Statement, annual Treasury Strategy Statement, Annual Investment Strategy and the Treasury Management Practices apart from 2 days in September 2010 when the Council exceeded its Treasury Management Practices limit with the Bank of Scotland.

2.4 It should be noted that, with effect from the Spending Review on 20th October 2010, the Government has instructed the PWLB to ensure that their borrowing rates are 1% greater than gilt yields which increases rates by approximately 0.9%. The impact of this change on the Council's budgets and the affordability of new borrowing will be factored into the budget process.

3.0 RECOMMENDATIONS

3.1 It is recommended that the Committee notes the contents of the Mid-Year Review Report on Treasury Management for 2010/11 and homologates the exceeding of the Treasury Management Practices limit with the Bank of Scotland for 2 days in September 2010.

3.2 It is recommended that the Mid-Year Review Report be remitted to the Council for consideration.

3.3 It is recommended that the Committee approve the issuing of tenders for Treasury Management advice from the firms listed in Appendix 4 for a 3 year contract with an option to extend for 1 year.

Alan Puckrin
Chief Financial Officer

4.0 BACKGROUND

4.1 The Chartered Institute of Public Finance and Accountancy's Code of Practice on Treasury Management (revised November 2009) has been adopted by this Council and the Council fully complies with its requirements. The primary requirements of the Code are:

1. The creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
2. The creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
3. The receipt by the Full Council of an annual Treasury Management Strategy Statement (including Annual Investment Strategy) for the year ahead, a Mid-Year Review Report, and an Annual Report (stewardship report) covering activities during the previous year.
4. The delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
5. The delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body which in this Council is the Policy & Resources Committee.

Mid-Year Review Report for 2010/11

4.2 Treasury Management in this context is defined as: "The management of the local authority'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."

The purpose of this report is to meet one of the above requirements of the CIPFA Code, namely the Mid-Year Review Report for the financial year 2010/11.

4.3 This mid-year review report covers:

- The Council's Treasury Position as at 30th September 2010
- An economic update of the first six months of 2010/11
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy
- A review of the Council's investment portfolio for 2010/11
- A review of the Council's borrowing strategy for 2010/11
- A review of any debt restructuring undertaken during 2010/11
- A review of compliance with Treasury, Prudential, and Council Policy Limits for 2010/11.

Treasury Management is a complex area with its own terminology and acronyms. In order to aid the Committee's understanding a Glossary of Terms is attached as Appendix 1.

4.4 Treasury Position As At 30th September 2010

The Council's debt and investment position was as follows:

	30th September 2010		1st April 2010	
	Principal	Rate	Principal	Rate
	£		£	
Fixed Rate Funding:				
- PWLB	95,777,766		80,779,352	
- Market *	35,000,000		51,000,000	
	130,777,766	4.192%	131,779,352	4.228%
Variable Rate Funding:				
- PWLB	0		0	
- Market *	67,900,000		51,900,000	
- EIB	0		0	
- Temporary	25,173		25,963	
	67,925,173	4.771%	51,925,963	4.642%
Total Debt	**198,702,939**	**4.390%**	**183,705,315**	**4.345%**

* - Market Loans are shown as variable when they have less than 1 year to go until their next call date.

	30th September 2010		1st April 2010	
	Principal	Return	Principal	Return
	£		£	
Investments:				
- External	40,000,000	1.725%	18,000,000	1.498%
- Deposit Accounts	24,226,814	0.754%	26,902,743	0.692%
Total Investments	**64,226,814**	**1.359%**	**44,902,743**	**1.015%**

In addition, the Council has items counting as investments under Scottish Government rules as at 30th September 2010 of £338,435 (down from £413,154 on 1st April 2010). Details are given in Appendix 2. It should be noted that any properties owned by the Council and that are classified under the rules as Investment Properties are also to be included as investments. The classification of assets as Investment Properties is currently being undertaken and reviewed based on the latest guidance on such issues.

4.5 Economic Update

Global Economy

The sovereign debt crisis peaked in May 2010 prompted, in the first place, by major concerns over the size of the Greek government's total debt and annual deficit. However, any default or write down of Greek debt would have substantial impact on other countries, in particular, Portugal, Spain and Ireland. This crisis culminated in the EU and International Monetary Fund putting together a €750bn support package in mid May.

Growth in the US, UK and the Eurozone in quarter 2 of 2010 was particularly driven by strong growth in the construction sector catching up from inclement weather earlier in the year and is unlikely to be repeated; general expectations are for much more subdued figures for the remainder of 2010. Market expectations for all three sectors of the economy is that these have all peaked and are pointing downwards, though not necessarily into negative territory.

UK Economy

Following the general election in May 2010, the coalition government has put in place an austerity plan to carry out correction of the public sector deficit over the next five years. The result of fiscal contraction is expected to be job losses during this period, in particular in public sector services, which is expected to have a knock-on effect on consumer and business confidence. House prices have started a negative trend during the summer and mortgage approvals are at very weak levels and also declining.

Economic Growth - GDP growth is likely to have peaked at 1.2% in quarter 2 of 2010.

Unemployment - The trend of falling unemployment (on the benefit claimant count) has now been replaced since July with small increases which are likely to be the start of a new trend of rising unemployment.

Inflation and Bank Rate - CPI has remained high so far during 2010. It peaked at 3.7% in April and has fallen back to 3.1% in August. RPI remains high, at 4.7% in August. Although inflation has remained stubbornly above the MPC's 2% target, the MPC is confident that inflation will fall back under the target over the next two years. The last quarterly Inflation Report in August showed a significant undershoot after the end of 2011.

The Bank of England finished its programme of quantitative easing with a total of £200bn in November 2009 (although there is currently some increase in expectations that there might be a second round of quantitative easing).

The view from the Council's treasury advisers (Sector Treasury Services Limited) is that there is unlikely to be any increase in the Bank Rate until the middle of 2011.

UK AAA Credit Rating - Prior to the general election, credit rating agencies had been issuing repeated warnings that unless there was a major fiscal contraction, then the AAA sovereign rating was at significant risk of being downgraded. Sterling was also under major pressure during the first half of the year. However, after the Chancellor's budget on 22nd June, Sterling has strengthened against the US dollar and confidence has returned that the UK will retain its AAA rating. In addition, international investors now view UK government gilts as being a safe haven from EU government debt. The consequent increase in demand for gilts has helped to add downward pressure on gilt yields and PWLB rates.

4.6 Treasury Advisers' View of Next Six Months of 2010/11

Sector advise that it is currently difficult to have confidence as to exactly how strong the UK economic recovery is likely to be, and there are a range of views in the market. They have therefore adopted a moderate view. There are huge uncertainties in all forecasts due to the major difficulties of forecasting the following areas:

- the speed of economic recovery in the US and EU
- the degree to which government austerity programmes will dampen economic growth
- the speed of rebalancing of the UK economy towards exporting and substituting imports
- changes in the consumer savings ratio
- the potential for more quantitative easing, and the timing of this in both the UK and US
- the speed of recovery of banks' profitability and balance sheet imbalances
- the potential for a major EU sovereign debt crisis which could have a significant impact on financial markets and the global and UK economy.

The overall balance of risks is weighted to the downside and there is some risk of a double dip recession and deleveraging (i.e. reduced borrowing and lending), creating a downward spiral of falling demand, falling jobs and falling prices, although this is currently viewed as being a small risk.

Sector believes that the longer run trend is for gilt yields and PWLB rates to rise due to the high volume of gilt issuance in the UK, and the high volume of debt issuance in other major Western countries.

4.7 Sector's Interest Rate Forecast

The latest interest rate forecast produced by Sector is as follows:

	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13
Bank rate	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%	2.00%	2.50%	3.00%	3.25%
5yr PWLB rate	3.10%	3.10%	3.10%	3.30%	3.50%	3.70%	3.90%	4.20%	4.50%	4.70%	5.00%	5.30%
10yr PWLB rate	4.20%	4.20%	4.20%	4.30%	4.60%	4.80%	4.90%	5.20%	5.30%	5.50%	5.50%	5.80%
25yr PWLB rate	5.10%	5.10%	5.20%	5.20%	5.30%	5.40%	5.60%	5.60%	5.70%	5.90%	5.90%	5.90%
50yr PWLB rate	5.10%	5.10%	5.20%	5.20%	5.30%	5.40%	5.60%	5.60%	5.70%	5.90%	5.90%	5.90%

The forecasts for PWLB rates include the effect of the 0.9% added to PWLB rates in the Spending Review announced on 20th October 2010.

4.8 Treasury Management Strategy Statement and Annual Investment Strategy Update

The Treasury Management Strategy Statement for 2010/11 was approved by the Council on 15th April 2010. The Council's Annual Investment Strategy, which is incorporated in the Treasury Management Strategy Statement, outlines the Council's investment priorities as follows:

- The security of capital
- The liquidity of investments.

The Council will also aim to achieve the optimum return (yield) on investments commensurate with the proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term (maximum loan period of 12 months), and only invest with highly credit rated financial institutions, using Sector's suggested creditworthiness approach, including sovereign credit rating and credit default swap (CDS) overlay information provided by Sector.

A breakdown of the Council's investment portfolio is shown in Appendix 2.

Borrowing rates have been at historically low rates during the first six months of the 2010/11 financial year. Any new external borrowing undertaken has been identified in paragraph 4.10 of this report. Borrowing has been £5m above that estimated in the Strategy (being £20m rather than £15m). This borrowing, which is required to finance forthcoming capital spending, was undertaken when rates were at appropriate levels and is affordable for the Council.

Investments during the first six months of the year have been in line with the Strategy.

As outlined above, there is still considerable uncertainty and volatility in the financial and banking market, both globally and in the UK. In this context, it is considered that the strategy approved on 15th April 2010 is still fit for purpose in the current economic climate.

It should be noted that, as mentioned in paragraph 4.7 above, with effect from the Spending Review on 20th October 2010, the Government has instructed the PWLB to ensure that their borrowing rates are 1% greater than gilt yields which increases rates by approximately 0.9%. The impact of this change on the Council's budgets and the affordability of new borrowing will be factored into the budget process.

4.9 Investment Portfolio 2010/11

In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's low risk appetite.

The investment portfolio yield for the first six months of the year compared to its benchmark is as follows:

Average Investment Over First Six Months Of 2010/11	Annualised Rate of Return (gross of fees)	Benchmark Return (7-day LIBID uncompounded)
£46,000,000	1.18%	0.42%

The Council have outperformed the benchmark by 0.76% resulting in additional income to the Council in the period of £174,800.

A full list of investments held as at 30th September 2010, compared to Sector's counterparty list and to the position at 1st April 2010, is shown in Appendix 2.

4.10 New External Borrowing

The Council's capital financing requirement (CFR) is, based on the latest capital programme, £10.7m for 2010/11 and £35.8m for 2011/12 (excluding assets funded from PPP). The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions.

Sector's central target rate for new external borrowing (for 25 years) for the first six months of 2010/11 started at 4.65% and fell progressively to 4.20%. Due to the overall financial position and the underlying need to borrow for capital purposes (the capital financing requirement - CFR), new external borrowing of £20m was undertaken from the PWLB in August 2010 as follows:

- £5,000,000 at 2.94% for 8 years
- £5,000,000 at 3.16% for 9 years
- £5,000,000 at 4.15% for 45 years
- £5,000,000 at 4.15% for 49 years.

As outlined below, the general trend has been a reduction in interest rates during the six months, across all bands, with the low points occurring in the middle to end of August. The high points were in early to mid April.

Further borrowing may be undertaken during this financial year if it is considered appropriate and prudent to do so.

This Council has not borrowed in advance of need during the first half of 2010/11 and has no intention to borrow in advance in the second half.

The table below shows the movement in PWLB rates for the first six months of the year and provide benchmarking data showing high and low points etc:

PWLB BORROWING RATES 2010/11 for 1 to 50 years								
	1	2	3	4	5	10	25	50
1. 4.2010	0.81%	1.37%	1.91%	2.40%	2.84%	4.14%	4.62%	4.65%
30.9.2010	0.64%	0.91%	1.22%	1.55%	1.88%	3.14%	3.95%	4.01%
HIGH	0.93%	1.52%	2.07%	2.56%	2.99%	4.27%	4.73%	4.74%
LOW	0.60%	0.89%	1.20%	1.52%	1.84%	3.06%	3.92%	3.93%
spread	0.33%	0.63%	0.87%	1.04%	1.15%	1.21%	0.81%	0.81%
average	0.73%	1.15%	1.58%	1.99%	2.37%	3.65%	4.35%	4.35%
high date	26/04/2010	26/04/2010	26/04/2010	26/04/2010	26/04/2010	12/04/2010	12/04/2010	26/04/2010
low date	15/06/2010	24/08/2010	25/08/2010	31/08/2010	31/08/2010	31/08/2010	31/08/2010	31/08/2010

4.11 Debt Rescheduling

No debt rescheduling was undertaken during the first six months of 2010/11.

4.12 Compliance with Treasury, Prudential and Council Policy Limits

It is a statutory duty for the Council to determine and keep under review the “Affordable Capital Expenditure Limits”. The Council’s approved Treasury and Prudential Indicators (affordability limits) are outlined in the approved Treasury Management Strategy Statement.

During the financial year to date the Council has operated within the treasury limits and Treasury and Prudential Indicators set out in the Council’s Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices except for 2 days in September 2010 when the Council exceeded its limit with the Bank of Scotland. The Council is requested to homologate the exceeding of its limit on these occasions which occurred due to the level of funds being held at the Bank of Scotland pending further expenditure and the identification of a suitable investment with another counterparty.

The Prudential and Treasury Indicators and Council policy limits monitored during the year are shown in Appendix 3.

4.13 Other Issues

The Council’s contract with its treasury advisers, which ran until 30th June 2009, was extended for a further 2 years until 30th June 2011.

Permission is therefore being sought for the Council to undertake a tendering exercise for this important service with tenders being sought from the suitably qualified treasury advising firms listed in Appendix 4.

It is proposed to tender for a contract for 3 years with an option to extend by a further year.

Members should note that, as of 25th October 2010, the Council’s previous treasury advisers (Butlers) were taken over by the Council’s current treasury advisers (Sector) thereby reducing the number of potential tenderers and advisers available to the Council.

5.0 IMPLICATIONS

5.1 Legal: None. Any borrowing or lending is done under the Council's legal powers.

Finance: Through the achievement of exceeding the investment benchmark return rate, the Council has benefited from additional returns of £174,800. The Council utilises Treasury Management as part of the overall Financial Strategy and Officers will continue to investigate borrowing and investment opportunities to bring financial benefits to the Council, all within the Treasury Management Policy.

Human Resources: None.

Equalities: None.

6.0 CONSULTATIONS

6.1 This report has been produced based on advice from the Council's treasury advisers (Sector Treasury Services Limited).

7.0 LIST OF BACKGROUND PAPERS

7.1 CIPFA - Code of Practice on Treasury Management in the Public Services (Revised 2009)
Scottish Government – Finance Circular 5/2010 – The Investment of Money By Scottish Local Authorities
Inverclyde Council – Treasury Management Strategy and Annual Investment Strategy 2010/11-2012/13.

Appendix 1

TREASURY MANAGEMENT
GLOSSARY OF TERMS

Affordable Capital Expenditure Limit
The amount that the Council can afford to allocate to capital expenditure in accordance with the requirements of the Local Government in Scotland Act 2003 and supporting regulations.

Authorised Limit for External Debt
This is a limit for total Council external debt as set by the Council based on debt levels and plans.

Bank of England
The central bank for the UK with ultimate responsibility for setting interest rates (which it does through the Monetary Policy Committee or "MPC").

Bank Rate
The interest rate for the UK as set each month by the Monetary Policy Committee ("MPC") of the Bank of England. This was previously referred to as the "Base Rate".

Capital Expenditure
Expenditure on or for the creation of fixed assets that meets the definition of Capital Expenditure under the accounting rules as set-out in the annual Statement of Recommended Practice (SORP) and for which the Council are able to borrow.

Capital Financing Requirement
This is a Prudential Indicator that can be derived from the information in the Council's Balance Sheet. It generally represents the underlying need to borrow for capital expenditure.

CDS Spread
A CDS Spread or "Credit Default Swap" Spread is the cost of insuring against default by a Counterparty. Increases in the CDS Spread for a Counterparty may indicate concerns within the market regarding a Counterparty.

CIPFA
CIPFA is the Chartered Institute of Public Finance and Accountancy who produce guidance, codes of practice, and policy documents for Councils.

Consumer Prices Index
The Consumer Prices Index ("CPI") is a means of measuring inflation (as is the Retail Prices Index or "RPI"). The Monetary Policy Committee of the Bank of England set the Bank Rate in order to try to keep CPI at or close to the target set by the Government (currently the target is 2%). The calculation of the CPI includes many items of normal household expenditure but the calculation excludes some items such as mortgage interest payments and Council Tax.

Counterparty
Another organisation involved in a deal i.e. if the Council enters a deal with a bank then the bank would be referred to as the "Counterparty".

Credit Ratings
Credit ratings are indicators produced by a ratings provider (such as Fitch, Moody's or Standard & Poor's) that aim to give an opinion on the relative ability of a financial institution to meet its financial commitments. Credit ratings are not guarantees – they are opinions based on investigations and assessments by the ratings providers and they are regularly reviewed and updated. The Council makes use of credit ratings to determine which counterparties are appropriate or suitable for the Council to make deposits with.

European Central Bank
Sometimes referred to as "the ECB", the European Central Bank is the central bank for the Eurozone and is the equivalent of the Bank of England. The European Central Bank sets interest rates for the Eurozone.

Eurozone
This is the name given to the countries in Europe that have the Euro as their currency. Interest rates in the Eurozone are set by the European Central Bank. The Eurozone is comprised of the following 16 countries: Austria, Belgium, Cyprus, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia, and Spain.

Fed Rate
This is the interest rate for the US. Rates for the US are set by the Federal Reserve (the central bank for the US and the equivalent of the Bank of England).

Federal Reserve
Sometimes referred to as "the Fed", the Federal Reserve is the central bank for the US and is the equivalent of the Bank of England. The Federal Reserve sets interest rates for the US.

Fixed Rate Funding/Investments
This term refers to funding or investments where the interest rate that applies to payments or receipts of interest on the funding or investments is fixed and does not change.

Flat Yield Curve
A flat yield curve occurs where the yield for long-term investments is the same or similar to the yield for short-term investments – the period of the investment makes no or little difference to the yield on the investment.

Gilt Yields
A gilt yield is the effective rate of return that someone buying a gilt at the current market price will receive on that gilt. Since the market price of a gilt can vary at any time, the yield will also vary.

Gilts
Gilts are bonds (i.e. debt certificates) that are issued (i.e. sold) by the UK Government. When they issue gilts the Government sets the interest rate that applies to the gilt, sets when they will repay the value of the gilt, and it agrees to make interest payments at regular intervals until the gilt is repaid or redeemed. Gilts are traded in the financial markets with the price varying depending on the interest rate applicable to the gilt, when the gilt will be repaid (i.e. when it will mature), on base rate expectations, and on market conditions.

Gross Domestic Product
Gross Domestic Product ("GDP") is a measure of the output of goods and services from an economy.

Incremental Impact of Capital Investment Decisions
These are Prudential Indicators that reflect the impact on Council Tax of movements in projected and estimated capital expenditure within and between financial years.

Inflation
Inflation is the term used for an increase in prices over time. It can be measured in various ways including using the Consumer Prices Index ("CPI") or the Retail Prices Index ("RPI").

Inverted Yield Curve
An inverted or negative yield curve shows long-term investments having lower yields than short-term investments (an investor gets a better yield by investing for a shorter period).

Investment Regulations
The Local Government in Scotland Act 2003 allows the Scottish Ministers to introduce Regulations to extend and govern the rules under which Scottish Councils may invest funds. The Local Government Investments (Scotland) Regulations 2010 came into effect on 1st April 2010.

LIBID
This is the London Interbank Bid Rate – an interest rate that is used between banks when they wish to attract deposits from each other.

LIBOR
This is the London Inter Bank Offering Rate – an interest rate that is used as a base for setting interest rates for deals between banks.

LOBO
This is a form of loan that the Council has with some lenders. The term is short for the phrase “Lender Option/Borrower Option”.

MPC
The MPC or Monetary Policy Committee is a committee of the Bank of England that meets each month (in a meeting over 2 days) to set the Bank Rate for the UK.

Negative Yield Curve
A negative or inverted yield curve shows long-term investments having lower yields than short-term investments (an investor gets a better yield by investing for a shorter period).

Net Borrowing Requirement
This is the difference between the Council’s net external borrowing and its capital financing requirement. Under the Prudential Code the Council’s net external borrowing should not, except in the short term, exceed its capital financing requirement. The Net Borrowing Requirement should therefore normally be a negative figure.

Operational Boundary
This is a level of debt set by the Council at lower than the Authorised Limit and which Council debt levels should not normally exceed during normal operations.

Positive Yield Curve
A positive yield curve shows long-term investments having higher yields than short-term investments (an investor gets a higher rate yield for investing for longer).

Prudential Code
Councils are required to comply with the CIPFA Prudential Code for Capital Finance in Local Authorities. These requirements include the production of Prudential Indicators. The Prudential Code was revised in November 2009 with the revisions including the reclassification of some Prudential Indicators as Treasury Management Indicators covered by the Treasury Management Code.

Prudential Indicators
Indicators set-out in the Prudential Code that will help Councils to meet requirements in relation to borrowing limits or which will help Councils demonstrate affordability and prudence with regard to their prudential capital expenditure.

PWLB
The Public Works Loan Board is a government agency and part of the Debt Management Office. The PWLB provides loans to local authorities and other specified bodies.

PWLB Rates
These are the interest rates chargeable by the Public Works Loan Board for loans. The rates for fixed rate loans are determined by the day on which the loan is agreed. The rates to be charged by the PWLB for loans are set each day based on gilt yields at the start of business each day and then updated at least once during the day.

Quantitative Easing
This is the creation of money by a central bank (such as the Bank of England) in order to purchase assets from banks and companies and boost the supply of money in an economy.

Ratings
Ratings are indicators produced by a ratings provider (such as Fitch, Moody's or Standard & Poor's) that aim to give an indication of the financial or operational strength of entities including financial institutions and even countries. Ratings are not guarantees – they are opinions based on investigations and assessments by the ratings providers and they are regularly reviewed and updated. The Council makes use of credit ratings to determine which counterparties are appropriate or suitable for the Council to make deposits with.

Repo Rate
This is another name for the Bank Rate as set by the Monetary Policy Committee.

Retail Prices Index
The Retail Prices Index ("RPI") is a means of measuring inflation (as is the Consumer Prices Index or "CPI"). The calculation of the RPI includes most of the same items as the CPI as well as some items not included in the CPI such as mortgage interest payments and Council Tax whilst excluding items that are in the CPI such as charges for financial services.

Sector
Sector Treasury Services Limited who are the Council's treasury management advisers.

Treasury Management Code
This is the "Treasury Management in the Public Services: Code of Practice" and is a code of practice for Council treasury management activities. It is produced by CIPFA and was revised in November 2009 with changes including the transfer of some Prudential Indicators from the Prudential Code into the Treasury Management Code as Treasury Management Indicators.

Treasury Management Indicators
These are Prudential Indicators specifically relating to Treasury Management issues that were reclassified following the revision of the Prudential Code in November 2009.

Treasury Management Practices (TMPs)
This is a Council document that sets out Council policies and procedures for treasury management as required by the Treasury Management Code. The Council also agrees an annual treasury management strategy that is submitted to Committee in accordance with the Treasury Management Practices.

Variable Rate Funding/Investments
Funding or investments where the interest rate that applies to payments or receipts of interest on the funding or investments varies on an agreed basis.

Yield
The yield is the effective rate of return on an investment.

Yield Curve
A graph showing the yield on investments plotted against the maturity period for investments:
- A positive yield curve shows long-term investments having higher yields than short-term investments (an investor gets a higher rate yield for investing for longer).
- A negative or inverted yield curve shows long-term investments having lower yields than short-term investments (an investor gets a better yield by investing for a shorter period).
- A flat yield curve occurs where the yield for long-term investments is the same or similar to the yield for short-term investments – the period of the investment makes no or little difference to the yield on the investment.

Finance Services
Inverclyde Council
October 2010.

Appendix 2

INVESTMENT PORTFOLIO

This Appendix shows the Council's Investment Portfolio as at 1st April 2010 and as at 30th September 2010. The Portfolio includes items included as Other Investments under the latest guidance on such matters.

Investments As At 1st April 2010					
	Sector Colour Category And Maximum Investment Period	Annual Rate	Amount	Deposit Type	Maturity Date
Investments			£		
Bank of Scotland	BLUE - 12 Months	1.35%	5,000,000	Fixed Term	07-Jun-10
Bank of Scotland	BLUE - 12 Months	1.35%	5,000,000	Fixed Term	11-Jun-10
Bank of Scotland	BLUE - 12 Months	1.37%	3,000,000	Fixed Term	27-Sep-10
Bank of Scotland	BLUE - 12 Months	1.87%	5,000,000	Fixed Term	25-Mar-11
			18,000,000		
Deposit Accounts					
Bank of Scotland	BLUE - 12 Months	0.50%	11,088,900	Call	---
Clydesdale Bank	GREEN - 3 Months	0.75%	1,514,436	Call	---
Santander	RED - 6 Months	0.80%	9,286,326	Call	---
Santander	RED - 6 Months	0.90%	5,013,081	30-Day Notice	---
			26,902,743		
Other Investments					
Holdings of Shares, Bonds, and Units	---	---	2,000	War Stock	---
Loans Made To Third Parties	---	---	411,154	---	---
Investment Properties	---	---	0	Properties Being Reviewed	---
			413,154		
TOTAL			**45,315,897**		

Investments As At 30th September 2010					
	Sector Colour Category And Maximum Investment Period	Annual Rate	Amount	Deposit Type	Maturity Date
Investments			£		
Bank of Scotland	BLUE - 12 Months	1.87%	5,000,000	Fixed Term	25-Mar-11
Bank of Scotland	BLUE - 12 Months	1.28%	5,000,000	Fixed Term	09-Dec-10
Bank of Scotland	BLUE - 12 Months	1.84%	5,000,000	Fixed Term	09-Jun-11
Bank of Scotland	BLUE - 12 Months	2.10%	5,000,000	Fixed Term	01-Jul-11
Bank of Scotland	BLUE - 12 Months	2.05%	5,000,000	Fixed Term	15-Aug-11
Bank of Scotland	BLUE - 12 Months	2.05%	5,000,000	Fixed Term	17-Aug-11
Bank of Scotland	BLUE - 12 Months	1.95%	5,000,000	Fixed Term	14 Sept-11
Nationwide Building Society	GREEN - 3 Months (Was RED - 6 Months)	0.66%	5,000,000	Fixed Term	15-Dec-10
			40,000,000		
Deposit Accounts					
Bank of Scotland	BLUE - 12 Months	0.50%	5,331,600	Call	---
Clydesdale Bank	GREEN - 3 Months	0.75%	4,520,005	15-Day Notice	---
Santander	GREEN - 3 Months	0.80%	7,348,797	Call	---
Santander	GREEN - 3 Months	0.90%	7,026,412	30-Day Notice	---
			24,226,814		
Other Investments					
Holdings of Shares, Bonds, and Units	---	---	2,000	War Stock	---
Loans Made To Third Parties	---	---	336,435	---	---
Investment Properties	---	---	0	Properties Being Reviewed	---
			338,435		
TOTAL			**64,565,249**		

Appendix 3

PRUDENTIAL/TREASURY INDICATORS AND COUNCIL POLICY LIMITS

Prudential and Treasury Indicators				
	Estimate For 2010/11	Actual For 2010/11 To 30/9/2010	Within Limits	
	£million	£million		
PI 7 - Authorised Limit for External Debt (Excl PPP)	239.219	198.703	Yes	
PI 8 - Operational Limit for External Debt (Excl PPP)	233.266	198.703	Yes	
PI 10 - Compliance with CIPFA code			Yes	
	%	%		
PI 11 - Upper limit on fixed interest exposure	120.00%	97.25%	Yes	
PI 12 - Upper limit on variable rate exposure	40.00%	2.75%	Yes	
PI 13 Borrowing fixed rate maturing in each period	Upper	Lower	Actual	Within Limits
Under 12 months	30%	0%	0.001%	Yes
1 - 2 years	30%	0%	3.119%	Yes
2 - 5 years	30%	0%	7.895%	Yes
5 - 10 years	30%	0%	24.664%	Yes
10 - 30 years	30%	0%	1.619%	Yes
30 - 50 years	40%	0%	35.939%	Yes
50 years and above	45%	0%	26.763%	Yes
TOTAL			100.000%	
PI 14 - Upper limit on sums invested for periods longer than 364 days	Limit For 2010/11 £	Maximum In Period £	Within Limit	Comment
	10,000,000	5,000,000	Yes	Deal was for 365 days
	Latest CFR 2010/11	Net External Debt	Net External Debt Below CFR?	
	£million	£million		
Net External Debt Compared To Capital Financing Requirement (Excl PPP)	195.711	134.476	Yes	
Council Policy Limits				
	Limit per Council Policy	Actual As At 30/9/2010	Within Limit	
Maximum proportion of borrowing at variable interest rates	40%	34.184%	Yes	
Maximum proportion of debt restructuring in any one year	30%	0.000%	Yes	
Maximum proportion of debt repayable in any one year	25%	20.131%	Yes	