Inverclyde council

AGENDA ITEM NO. 6

Report To:	**Policy & Resources Committee**	**Date:**	**24 May 2011**
Report By:	**Chief Financial Officer**	**Report No:**	**FIN/58/11/KJ/AP**
Contact Officer:	**Alan Puckrin**	**Contact No:**	**01475 712223**
Subject:	**TREASURY MANAGEMENT – ANNUAL 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 for 2010/11 as required under the terms of Treasury Management Practice 6 ("TMP6") on "Reporting Requirements and Management Information Arrangements".

2.0 SUMMARY

2.1 As at 31st March 2011 the Council had debt of £198,707,021 and investments of £68,261,106.

2.2 The average rate of return achieved on investments during 2010/11 was 1.33% which exceeds the benchmark return rate for the year of 0.43% by 0.90% and resulting in £504,000 of additional interest on investments for the Council.

2.3 During 2010/11 the Council did not undertake any debt restructuring and operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Policy Statement, annual Treasury Strategy Statement, and the Treasury Management Practices other than on a few occasions as reported to Committee in November 2010 and February 2011.

2.4 The Council's Treasury Adviser contract is due for renewal on 30 June 2011. For the reasons outlined in Section 4.12 it is requested that officers be authorised to negotiate with the current Adviser, Sector Treasury Services Ltd for a 3 Year contract with an option to extend for a further year.

3.0 RECOMMENDATIONS

3.1 It is recommended that the Committee notes the contents of the annual report on Treasury Management for 2010/11 and the ongoing work to ensure the delivery of financial benefits for the Council.

3.2 It is also recommended that the Annual Report be remitted to the Council for consideration.

3.3 The Committee is also recommended to:

a. Approve the negotiation with Sector Treasury Services Ltd for treasury advisers services for a contract of 3 years with an optional 1 year extension, subject to the approval of the Chief Financial Officer and Head of Legal & Democratic Services and the annual cost not exceeding £18,000 per year.

b. Extend the increased Treasury Management Practices limit of £60 million with the Bank of Scotland until the end of March 2012.

c. Homologate any exceeding of the Council's Treasury Management Practices limit with the Bank of Scotland between the end of April 2011 and the date of the Committee.

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 2001 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 Council of an annual strategy report for the year ahead, a mid-year review, and an annual review report of 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.

<u>Annual Report for 2010/11</u>

4.2 Treasury Management in this context is defined as: "The management of the local authority's 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 annual review report of treasury management activities, for the financial year 2010/11.

4.3 This annual treasury report covers:

- the Council's treasury position as at 31st March 2011;
- performance measurement;
- the strategy for 2010/11;
- the economy and interest rates in 2010/11;
- the borrowing outturn for 2010/11;
- debt rescheduling;
- compliance with treasury limits and Prudential Indicators;
- investment strategy and outturn for 2010/11
- other issues.

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 31st March 2011

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

	31st March 2011		31st March 2010	
	Principal	Rate	Principal	Rate
	£000		£000	
Fixed Rate Funding:				
- PWLB	95,776		80,779	
- Market *	40,000		51,000	
	135,776	4.117%	131,779	4.228%
Variable Rate Funding:				
- PWLB	0		0	
- Market *	62,900		51,900	
- Temporary	31		26	
	62,931	4.979%	51,926	4.642%
Total Debt	**198,707**	**4.390%**	**183,705**	**4.345%**

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

	31st March 2011		31st March 2010	
	Principal	Return	Principal	Return
	£000		£000	
Investments:				
- External	55,000	1.805%	18,000	1.498%
- Deposit Accounts	13,261	0.601%	26,903	0.692%
Total Investments	**68,261**	**1.572%**	**44,903**	**1.015%**

4.5 Performance Measurement

One of the key changes in the revision of the Code in 1996 was the formal introduction of performance measurement 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.

An alternative measure is the Council's Loans Fund Pool Rate for Interest which is used to allocate interest charges to the General Fund and reflects the actual cost of the Council's Treasury activities. The rates for the last 5 years are as follows:

Year	Loans Fund Pool Rate	Comments
2006/07	5.859%	
2007/08	6.274%	Stock Transfer took place in 2007/08
2008/09	4.608%	
2009/10	3.805%	
2010/11	4.300%	Projected (Year-End Accounts Being Prepared)

As the above table shows, the rate for 2010/11 is projected to be around 4.300%. The final rate will be reported to Committee as part of the Mid-Year Review report.

Members may also be interested to note that, as at 31st March 2011, the Council's average interest rate for borrowing with the PWLB was 4.03%, the lowest of the mainland Scottish Councils. In addition, the Council's average debt life for PWLB debt at 31st March 2011 was 25.1 years against the Scottish Council average of 22.6 years giving the Council additional stability at these low rates. It is expected that the Council's PWLB borrowing rate will increase marginally over the next few years but remain well below 5.00% compared to the Scottish Council average at 31st March 2011 of 5.35%.

4.6 Strategy For 2010/11

The Council's borrowing strategy for 2010/11 was based on the following information:

- Rates were expected to gradually increase during the year so it would therefore be advantageous to time new long term borrowing for the start of the year when 25 year PWLB rates were expected to fall back to or below the central forecast rate of about 4.75%, a suitable trigger point for considering new fixed rate long term borrowing.
- Variable rate borrowing was expected to be cheaper than long term borrowing and therefore be attractive throughout the financial year compared to taking long term fixed rate borrowing.
- PWLB rates on loans of less than ten years duration were expected to be lower than longer term PWLB rates offering a range of options for new borrowing which would spread debt maturities away from a concentration in long dated debt.
- There was expected to be little difference between 25 year and 50 year rates so therefore loans in the 25-30 year periods could be seen as being more attractive than 50 year borrowing as the spread between the PWLB new borrowing and early repayment rates was considerably less. This would maximise the potential for debt rescheduling.
- Consideration was also to be given to borrowing fixed rate market loans at 0.25%-0.50% below the PWLB target rate.

On the use of External Borrowing against using Internal Borrowing:

- The general aim of the treasury management strategy was to seek to reduce and then approximately maintain the difference between the Gross and Net debt levels over the following three years in order to reduce the credit risk incurred by holding investments whilst meeting liquidity requirements and retaining flexibility over funding requirements. Measures taken in 2009/10 had already reduced substantially the level of credit risk so another factor which was to continue to be carefully considered was the difference between borrowing rates and investment rates (subject to continuing risk management and monitoring over investments).
- Over the following three years, investment rates were expected to continue to be below long term borrowing rates and so value for money considerations would indicate that value could best be obtained by avoiding new external borrowing and by using internal cash balances to finance new capital expenditure or to replace maturing external debt (this is referred to as internal borrowing). This would maximise short term savings although the scope for such action was limited, given the Council's level of cash balances.
- However, short term savings by avoiding new long term external borrowing in 2010/11 were also to be weighed against the potential for incurring additional long term extra costs by delaying unavoidable new external borrowing until later years when PWLB long term rates were forecast to be significantly higher.

Against this background, and with regard to the level of Council investments, caution was to be adopted with the 2010/11 treasury operations. The Chief Financial Officer was to monitor the interest rate market and adopt a pragmatic approach to changing circumstances, reporting any decisions to Committee in quarterly reports.

4.7 The Economy In 2010/11 and Interest Rates

2010/11 proved to be another watershed year for financial markets. Rather than a focus on individual institutions, market fears moved to sovereign debt issues, particularly in the peripheral Eurozone countries. Local authorities were also presented with changed circumstances following the unexpected change of policy on PWLB lending arrangements implemented without warning on the day of the Comprehensive Spending Review in October 2010. This resulted in an increase in new borrowing rates of 0.75-0.85%, without an associated increase in early redemption rates. This made new borrowing from the PWLB more expensive and made repayment of PWLB debt (as part of debt rescheduling) relatively less attractive.

The change in the UK political background was a major factor behind weaker domestic growth expectations. The new coalition Government struck an aggressive fiscal policy stance, evidenced through heavy spending cuts announced in the October Comprehensive Spending Review, and the lack of any “giveaway” in the March 2011 Budget. Although the main aim was to reduce the national debt burden to a sustainable level, the measures are also expected to act as a significant drag on growth.

Gilt yields fell for much of the first half of the year as financial markets drew considerable reassurance from the Government’s debt reduction plans, especially in the light of Eurozone sovereign debt concerns. Expectations of further quantitative easing also helped to push yields to historic lows. However, this positive performance was mostly reversed in the closing months of 2010 as sentiment changed due to sharply rising inflation pressures. These were also expected (during February/March 2011) to cause the Monetary Policy Committee to start raising Bank Rate earlier than previously expected.

Deposit rates picked up modestly in the second half of the year as rising inflationary concerns, and strong first half growth, fed through to prospects of an earlier start to increases in Bank Rate. However, in March 2011, slowing actual growth, together with weak growth prospects, saw consensus expectations of the first UK rate rise move back from May to August 2011 despite high inflation. However, the disparity of expectations on domestic economic growth and inflation encouraged a wide range of views on the timing of the start of increases in Bank Rate in a band from May 2011 through to early 2013. This sharp disparity was also seen in MPC voting which, by year-end, had three members voting for a rise while others preferred to continue maintaining rates at ultra low levels.

4.8 Borrowing Outturn For 2010/11

As previously reported to Committee, the Council has undertaken the following borrowing during the year:

August 2010

- £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.

It should be noted that, had this borrowing been delayed until just after the Comprehensive Spending Review in October, the rates would have been around 0.70% higher for the 8 and 9 year borrowing and around 1.00% higher for the 45 and 49 year borrowing.

4.9 Debt Rescheduling

Rescheduling Strategy – The Council’s treasury consultants started 2010/11 with the expectation that longer-term PWLB rates would be on a rising trend during the year and that shorter term rates would be considerably cheaper. However, moving from long term to short term debt would mean taking on a greater risk exposure to having to re-borrow longer term in later years at considerably higher rates. Short term savings could be achieved by internally financing new capital expenditure and replacing maturing debt by running down existing cash balances which were only earning minimal rates of interest due to short term rates on investments being lower than rates paid on debt. Running down cash balances would also mean reduced counterparty risk on the investment portfolio.

Rescheduling Outturn For 2010/11 – The Council undertook no debt restructuring in 2010/11.

4.10 Compliance With Treasury Limits

During the financial year the Council operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Policy Statement, annual Treasury Strategy Statement, and the Treasury Management Practices other than on a few occasions as reported to Committee in November 2010 and February 2011. The projected outturn for the Prudential Indicators (for which outturn figures are required) is shown in Appendix 2 – the actuals for 2010/11 will be reported to Committee once they have been finalised.

4.11 Investment Rates and Outturn For 2010/11

Investment Policy – The Council's investment policy is governed by Scottish Government Investment Regulations, which was implemented in the annual investment strategy approved by the Council on 15th April 2010. This policy sets out the approach for choosing investment categories and counterparties, and is based on credit ratings provided by the three main credit rating agencies supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.).

Investment Strategy – The Bank Rate had been unchanged at 0.50% since March 2009. It was forecast to commence rising in quarter 1 of 2011 and then to rise steadily from thereon. Bank Rate forecasts for financial year ends (March) were as follows (compared to the latest position):-

	Forecast Per 2010/11 Strategy	Actual/Latest Forecast
2009/10	0.50%	0.50% (Actual)
2010/11	1.00%	0.50% (Actual)
2011/12	3.00%	1.00% (Forecast)
2012/13	4.50%	2.25% (Forecast)

There was, and remains, downside risk to the forecasts if the recovery from the recession proves to be weaker and slower than expected.

Investment Rates and Outturn for 2010/11 - The tight monetary conditions following the 2008 financial crisis continued through 2010/11 with little material movement in the shorter term deposit rates. The Bank Rate remained at its historical low of 0.50% throughout the year, although growing market expectations of the imminence of the start of monetary tightening saw 6 and 12 month rates picking up.

Overlaying the relatively poor investment returns was the continued counterparty concerns, most evident in the Eurozone sovereign debt crisis which resulted in rescue packages for Greece, Ireland and latterly Portugal. Concerns extended to the European banking industry with an initial stress testing of banks failing to calm counterparty fears, resulting in a second round of testing currently in train. This highlighted the ongoing need for caution in treasury investment activity.

The result of the investment strategy undertaken by the Council in 2010/11 is as follows:

Average Investment	Rate of Return (gross of fees)	Benchmark Return (7-day LIBID uncompounded)
£56,000,000	1.33%	0.43%

The Council have outperformed the benchmark by 0.90% resulting in additional income to the Council of £504,000.

No institutions in which investments were made had any difficulty in repaying investments and interest in full during the year.

4.12 Other Issues

Treasury Advisers
The Council's contract with its treasury advisers, Sector Treasury Services Ltd, was originally for 3 years with a 2 year optional extension until 30th June 2009. The Council then agreed a further 2 year extension which ends on 30th June 2011. The Committee gave approval in November 2010 to proceed to tender for treasury adviser services for a contract of 3 years with a 1 year optional extension.

During 2010 Sector took over Butlers, the other main provider of Treasury Advisory Services in Local Government. Whilst a Competition Commission review of this take over is ongoing this leaves Sector with 29 out of the 32 Scottish Local Authorities.

Given the above and continued uncertainties in the financial markets, the need for experienced, consistent and uninterrupted advice, approval is now being sought from Committee to negotiate a contract with the existing advisers, Sector Treasury Services Ltd, rather than proceeding to tender. Any contract will only be entered into with the approval of the Chief Financial Officer and Head of Legal & Democratic Services and is expected to cost around £18,000 per year.

4.13 Treasury Management Practices Limit – Bank of Scotland
In February 2011 the Committee approved an increase in the Treasury Management Practices limit for investments with the Bank of Scotland from £50 million to £60 million until the end of April 2011. This allowed the Council to continue to optimise its return on investments whilst complying with the CIPFA Treasury Management Code of Practice and whilst holding funds needed to fund forthcoming Capital and Earmarked Reserves expenditure.

Approval is now being sought:

a. To extend the increased limit of £60 million with the Bank of Scotland until the end of March 2012.
b. To homologate any exceeding of the Council's Treasury Management Practices limit with the Bank of Scotland between the end of April 2011 and the date of the Committee.

5.0 IMPLICATIONS

5.1 Legal: 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 £504,000. 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.

Financial Implications – Annually Recurring Costs/ (Savings)

Cost Centre	**Budget Heading**	**With Effect from**	**Annual Net Impact**	**Virement From** (If Applicable)	**Other Comments**
Loans Fund	Other Costs	30/6/11	£18,000	-	-

The Treasury Advisers contract is expected to cost the Council around £18,000 per year with the cost being borne as part of the Council's Loan Charges budget.

Human Resources: None.

Equalities: None.

6.0 CONSULTATIONS

6.1 This report has been produced taking into account 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)
Inverclyde Council – Treasury Management Strategy 2010/11.

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 Prudential Indicator and 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
The Capital Financing Requirement (sometimes referred to as the “CFR”) 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
The Chartered Institute of Public Finance and Accountancy. CIPFA 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 currently comprised of the following 17 countries: Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia, and Spain.

Fed Rate
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
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 or “GDP” is a measure of the output of goods and services from an economy.

IMF
The International Monetary Fund oversees the world financial system and seeks to stabilise international exchange rates, facilitate development, and provide resources to countries in balance of payments difficulties or to assist with poverty reduction.

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".

Money Market Fund
A Money Market Fund (or MMF) is a highly regulated investment product into which funds can be invested. An MMF offers the highest possible credit rating (AAA) whilst offering instant access and the diversification of risk (due to the MMF's balances being investing in selected and regulated types of investment product with a range of different and appropriately credit-rated counterparties).

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 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
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
May 2011.

Appendix 2

PRUDENTIAL INDICATORS

	2009/10 Actual	2010/11 Projected
Capital Expenditure (Indicator 5)	£000	£000
Non – HRA	15,589	19,731
HRA #	0	0
TOTAL	15,589	19,731
Ratio of financing costs to net revenue stream (Indicator 1)		
Non – HRA	7.48%	8.37%
HRA #	0.00%	0.00%
Net borrowing requirement (Indicator 4)	£000	£000
As At 31 March	-43,522	-56,928
Capital Financing Requirement as at 31 March (Indicator 6)	£000	£000
Non – HRA ##	204,743	208,194
HRA #	0	0
TOTAL	204,743	208,194
Upper limit for total principal sums invested for over 364 days (Indicator 14) ###	£0	£0

- The Council undertook Housing Stock Transfer during 2007/08.
- The Indicator includes PPP schools occupied from 2009/10 and is as required by the accounting rules.
- During 2010/11 the maximum invested beyond 364 days at any time was £5,000,000 which was invested for 365 days.