Inverclyde council

AGENDA ITEM NO. 7

Report To:	**Policy & Resources Committee**	**Date:**	**15 November 2011**
Report By:	**Chief Financial Officer**	**Report No:**	**FIN/111/11/AP/KJ**
Contact Officer:	**Alan Puckrin**	**Contact No:**	**01475 712223**
Subject:	**Treasury Management – Mid-Year Review Report 2011/12**		

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 2011/12 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 2011 the Council had debt of £198,705,735 and investments of £67,592,903 with little change from the position as at 1st April 2011.

2.2 The average rate of return achieved on investments during the first half of 2011/12 was 1.61% which exceeds the benchmark return rate for the period of 0.72% by 0.89% largely due to the Council choosing to invest for longer periods than the benchmark of 3 months.

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 issues explained in paragraph 4.13.

2.4 The recent changes to credit ratings for UK and other banks and financial institutions have not required any action by the Council but the position is being constantly monitored.

2.5 The economic situation and financial and banking markets remain uncertain and volatile, both globally and in the UK, but it is considered that the Treasury Management Strategy and Annual Investment strategy approved by the Council on 14th April 2011 are still appropriate.

3.0 RECOMMENDATIONS

3.1 It is recommended that the Committee notes the contents of the Mid-Year Review Report on Treasury Management for 2011/12 and homologates the exceeding of Council limits as explained in paragraph 4.13.

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

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.

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."

<u>Mid-Year Review Report for 2011/12</u>

4.3 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 2011/12.

4.4 This mid-year review report covers:

- The Council's Treasury Position as at 30th September 2011
- An economic update of the first six months of 2011/12
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy
- A review of the Council's investment portfolio for 2011/12
- A review of the Council's borrowing strategy for 2011/12
- A review of any debt restructuring undertaken during 2011/12
- A review of compliance with Treasury, Prudential, and Council Policy Limits for 2011/12.

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.

4.5 Treasury Position As At 30th September 2011

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

	30th September 2011		1st April 2011	
	Principal	Rate	Principal	Rate
	£		£	
Fixed Rate Funding:				
- PWLB	95,774,406		95,776,118	
- Market *	56,000,000		40,000,000	
	151,774,406	4.189%	135,776,118	4.117%
Variable Rate Funding:				
- PWLB	0		0	
- Market *	46,900,000		62,900,000	
- Temporary	31,329		30,979	
	46,931,329	5.040%	62,930,979	4.979%
Total Debt	**198,705,735**	**4.390%**	**198,707,097**	**4.390%**

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

	30th September 2011		1st April 2011	
	Principal	Return	Principal	Return
	£		£	
Investments:				
- External	53,000,000	1.982%	55,000,000	1.805%
- Deposit Accounts	14,592,903	0.706%	13,261,106	0.601%
Total Investments	**67,592,903**	**1.706%**	**68,261,106**	**1.572%**

In addition, the Council has items counting as investments under Scottish Government rules as at 30th September 2011 of £453,042 (up from £448,540 on 1st April 2011). Details are given in Appendix 2 and largely relate to loans to third parties.

4.6 Economic Update

The Council's Treasury Advisers (Sector Treasury Services Ltd) have provided the following economic update:

Global Economy

The Eurozone sovereign debt crisis continued with Spain, and particularly Italy, being the focus of renewed market concerns that they may soon join with Greece, Ireland and Portugal in needing assistance. This uncertainty and the lack of a coordinated or credible Eurozone response, left market commentators concerned over the potential impact of sovereign default and resulting effect on the Eurozone banking sector. The approval by various countries of a €440bn bail-out fund in September has brought temporary relief to financial markets but this is not thought to provide a credible remedy to the scale of the Greek debt problem or the sheer magnitude of the potential needs of other countries for support.

This, coupled with political difficulties in the US over their plans to address the budget deficit, the size and control over the US sovereign debt, and the subsequent loss of the AAA credit rating from Standard and Poor's, has led to a much more difficult and uncertain outlook for the world economy.

Growth prospects in the US, UK and the Eurozone have been lower than expected, with future prospects similarly cut. Whilst not a central view amongst market commentators, concerns of a double dip recession in some Western countries have increased. World stock markets fell in the second quarter of 2011/12 as a consequence.

UK Economy

Following zero growth in the final half of 2010/11 the UK economy grew by a weaker than expected 0.1% in the first quarter of 2011/12, providing a knock-on effect to future growth prospects. Growth prospects will be governed by UK consumer sentiment, which is currently subdued due to falling disposable income. Higher VAT, overhanging debt, high inflation and concerns over employment are thought likely to weigh heavily on consumers into the future.

The announcement on 6th October by the Monetary Policy Committee of the Bank of England of a second round of quantitative easing of £75bn emphasised how seriously the MPC now views recession as being a much bigger concern than inflation. Although inflation remains stubbornly high, the MPC still expects future falls in inflation, resulting in an undershoot of its 2% target, and opening the way for this new round of quantitative easing.

International investors continue to view UK government gilts as being a safe haven from the EU sovereign debt crisis. The consequent increase in demand for gilts has helped to add downward pressure on gilt yields and sent PWLB borrowing rates to low levels.

4.7 Treasury Advisers' View of Next Six Months of 2011/12

Sector advise that there remain huge uncertainties in economic forecasts due to the following major difficulties:

- The increase in risk that the UK, US and EU could fall into recession
- The likely political gridlock in the US preventing significant government fiscal action to boost growth ahead of the Presidential elections in November 2012
- The potential for a major EU sovereign debt crisis which could have a significant impact on financial markets and the global and UK economies
- The degree to which government austerity programmes will dampen economic growth
- The potential for further quantitative easing, and the timing of this in both the UK and US
- The speed of recovery of banks' profitability and balance sheet imbalances and the risk of substantial losses being incurred on EU sovereign debt.

They consider that the overall balance of risks is weighted to the downside:

- Low growth in the UK is expected to continue, with a low Bank Rate to continue for at least 24 months, coupled with a possible further extension of quantitative easing. This is expected to keep investment returns depressed.
- The expected longer-run trend for PWLB borrowing rates is for them to rise, primarily due to the need for a high volume of gilt issuance in the UK, and the high volume of debt issuance in other major Western countries. However the current safe haven status of the UK may continue for some time, postponing any increases until 2012.

4.8 Sector's Interest Rate Forecast

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

	NOW	Dec-11	**Mar-12**	Jun-12	Sep-12	Dec-12	**Mar-13**	Jun-13	Sep-13	Dec-13	**Mar-14**	Jun-14	Sep-14	Dec-14	**Mar-15**
BANK RATE	0.50	0.50	**0.50**	0.50	0.50	0.50	**0.50**	0.50	0.75	1.00	**1.25**	1.50	2.00	2.25	**2.50**
3 month LIBID	0.75	0.70	**0.70**	0.70	0.70	0.70	**0.75**	0.80	0.90	1.20	**1.40**	1.60	2.10	2.40	**2.60**
6 month LIBID	1.00	1.00	**1.00**	1.00	1.00	1.00	**1.10**	1.20	1.40	1.60	**1.80**	2.00	2.50	2.70	**2.90**
12 month LIBID	1.50	1.50	**1.50**	1.50	1.50	1.60	**1.70**	1.80	1.90	2.20	**2.40**	2.60	3.10	3.20	**3.30**
5 yr PWLB	2.30	2.30	**2.30**	2.30	2.30	2.40	**2.50**	2.60	2.70	2.80	**2.90**	3.10	3.30	3.50	**3.70**
10 yr PWLB	3.30	3.30	**3.30**	3.30	3.40	3.40	**3.50**	3.60	3.70	3.80	**4.00**	4.20	4.40	4.60	**4.80**
25 yr PWLB	4.20	4.20	**4.20**	4.20	4.30	4.30	**4.40**	4.50	4.60	4.70	**4.80**	4.90	5.00	5.10	**5.20**
50 yr PWLB	4.30	4.30	**4.30**	4.30	4.40	4.40	**4.50**	4.60	4.70	4.80	**4.90**	5.00	5.10	5.20	**5.30**

4.9 Treasury Management Strategy Statement and Annual Investment Strategy Update
The Treasury Management Strategy Statement for 2011/12 was approved by the Council on 14th April 2011. 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.

For borrowing rates, the general trend has been a reduction in interest rates during the first six months of 2011/12 across all maturity bands. No borrowing has been undertaken during the year so far.

Investments during the first six months of the year have been in line with the Strategy and none of the recent changes to credit ratings for UK and other banks and financial institutions have required action by the Council. Added caution is, however, being exercised and the position is being constantly monitored.

As outlined above, the economic situation and financial and banking markets remain uncertain and volatile, both globally and in the UK. In this context, it is considered that the Treasury Management Strategy and Annual Investment strategy approved by the Council on 14th April 2011 are still appropriate.

4.10 Investment Portfolio 2011/12
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 2011/12	Annualised Rate of Return (gross of fees)	Benchmark Return (3 Month LIBID uncompounded)
£70,000,000	1.61%	0.72%

The Council have outperformed the benchmark by 0.89% resulting in additional income to the Council in the period of £311,500 largely due to the Council undertaking investments for longer periods than the 3 month benchmark.

A full list of investments held as at 30th September 2011, compared to Sector's counterparty list and to the position at 1st April 2011, is shown in Appendix 2.

4.11 New External Borrowing
The Council's capital financing requirement (CFR) is, based on the latest capital programme, £13.9m for financial year 2011/12 and £51.7m for 2012/13 (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.

The general trend for PWLB rates was a reduction in interest rates during the six months, across all bands, with the low points occurring in the middle to end of September. The high points were in early to mid April.

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

PWLB Borrowing rates 1 April - 30 Sept 2011					
	1yr	5yr	10yr	25yr	50yr
High	1.97%	3.73%	4.89%	5.43%	5.34%
Date	06/04/2011	11/04/2011	11/04/2011	11/04/2011	11/04/2011
Low	1.42%	2.18%	3.31%	4.44%	4.57%
Date	13/09/2011	13/09/2011	13/09/2011	26/09/2011	13/09/2011
Average	1.59%	2.92%	4.15%	5.02%	5.02%
Spread between High and Low	0.55%	1.55%	1.58%	0.99%	0.77%
01/04/2011	1.95%	3.65%	4.80%	5.36%	5.28%
30/09/2011	1.49%	2.41%	3.49%	4.53%	4.70%
Spread between 01/04/2011 and 30/09/2011	0.46%	1.24%	1.31%	0.83%	0.58%

The Council has undertaken no new borrowing during the first half of 2011/12 but may undertake borrowing during the remainder of the financial year if it is considered appropriate and prudent to do so. The Council has not borrowed in advance of need in 2011/12 and has no intention of doing so.

4.12 Debt Rescheduling

No debt rescheduling was undertaken during the first six months of 2011/12.

4.13 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:

a. Counterparty Limit with Bank of Scotland: Exceeded for 2 days in June 2011. The limit exceeded was 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
b. Upper Limit on Fixed Interest Exposure: Exceeded for the period between 11th October 2011 and 12th December 2011. The limit was exceeded due to the technical reclassification of Market Loans between variable and fixed (with no impact on the interest rates payable by the Council). The Council will fall back below the limit when another Market Loan currently classified as fixed becomes technically variable on 13th December 2011.

The Council is requested to homologate the exceeding of these limits.

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

4.14 Performance Measurement 2010/11
Appendix 4 shows the outturn for Prudential Indicators for 2009/10 and 2010/11 along with the Loans Fund Pool Rate for Interest for the last five years. These figures reflect the final position following the completion and audit of the Council's Annual Accounts.

4.15 Other Issues
The Council's contract with its treasury advisers, has been extended until 30th June 2014 with the option for a further one year extension until 30th June 2015.

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 £311,500. 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 2011/12-2013/14.

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
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
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 17 countries: Austria, Belgium, Cyprus, Estonia, 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.

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 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 2011.

Appendix 2

INVESTMENT PORTFOLIO

This Appendix shows the Council's Investment Portfolio as at 1st April 2011 and as at 30th September 2011. The Portfolio includes items included as Other Investments under the latest guidance on such matters.

Investments As At 1st April 2011					
	Sector Colour Category And Maximum Investment Period	Annual Rate	Amount	Deposit Type	Maturity Date
Investments			£		
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	11-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-Sep-11
Bank of Scotland	BLUE - 12 Months	1.90%	5,000,000	Fixed Term	01-Dec-11
Bank of Scotland	BLUE - 12 Months	2.00%	5,000,000	Fixed Term	15-Dec-11
Santander UK	GREEN - 3 Months	1.10%	7,000,000	Fixed Term	16-May-11
Bank of Scotland	BLUE - 12 Months	2.10%	3,000,000	Fixed Term	28-Feb-12
Nationwide BS	RED - 6 Months	1.07%	5,000,000	Fixed Term	26-Sep-11
Bank of Scotland	BLUE - 12 Months	2.10%	5,000,000	Fixed Term	23-Mar-12
			55,000,000		
Deposit Accounts					
Bank of Scotland	BLUE - 12 Months	0.50%	8,794,550	Call	---
Clydesdale Bank	GREEN - 3 Months	0.75%	38,252	15-Day Notice	---
Santander UK	GREEN - 3 Months	0.80%	4,375,344	Call	---
Santander UK	GREEN - 3 Months	0.90%	52,960	30-Day Notice	---
			13,261,106		
Other Investments					
Holdings of Shares, Bonds, and Units	---	---	2,000	War Stock	---
Loans Made To Third Parties	---	---	446,540	---	---
Investment Properties	---	---	0	---	---
			448,540		
TOTAL			**68,709,646**		

Investments As At 30th September 2011					
	Sector Colour Category And Maximum Investment Period	Annual Rate	Amount	Deposit Type	Maturity Date
Investments			£		
Bank of Scotland	BLUE - 12 Months	1.90%	5,000,000	Fixed Term	01-Dec-11
Bank of Scotland	BLUE - 12 Months	2.00%	5,000,000	Fixed Term	15-Dec-11
Bank of Scotland	BLUE - 12 Months	2.10%	3,000,000	Fixed Term	28-Feb-12
Bank of Scotland	BLUE - 12 Months	2.10%	5,000,000	Fixed Term	23-Mar-12
Bank of Scotland	BLUE - 12 Months	2.10%	3,000,000	Fixed Term	14-May-12
Bank of Scotland	BLUE - 12 Months	2.10%	5,000,000	Fixed Term	07-Jun-12
Bank of Scotland	BLUE - 12 Months	2.10%	5,000,000	Fixed Term	09-Jul-12
Santander UK	GREEN - 3 Months	1.41%	5,000,000	Fixed Term	13-Jan-12
Bank of Scotland	BLUE - 12 Months	2.15%	5,000,000	Fixed Term	13-Aug-12
Bank of Scotland	BLUE - 12 Months	2.15%	5,000,000	Fixed Term	15-Aug-12
Bank of Scotland	BLUE - 12 Months	2.15%	5,000,000	Fixed Term	12-Sep-12
Santander UK	GREEN - 3 Months	1.07%	2,000,000	Fixed Term	28-Nov-11
			53,000,000		
Deposit Accounts					
Bank of Scotland	BLUE - 12 Months	0.50%	4,102,900	Call	---
Clydesdale Bank	GREEN - 3 Months	0.75%	3,038,704	15-Day Notice	---
Santander UK	GREEN - 3 Months	0.80%	7,398,151	Call	---
Santander UK	GREEN - 3 Months	0.90%	53,148	30-Day Notice	---
			14,592,903		
Other Investments					
Holdings of Shares, Bonds, and Units	---	---	2,000	War Stock	---
Loans Made To Third Parties	---	---	451,042	---	---
Investment Properties	---	---	0	---	---
			453,042		
TOTAL			**68,045,945**		

Appendix 3

PRUDENTIAL/TREASURY INDICATORS AND COUNCIL POLICY LIMITS

Prudential and Treasury Indicators

	Estimate For 2011/12	Actual For 2011/12 To 30/9/2011	Within Limits	
	£million	£million		
PI 7 - Authorised Limit for External Debt (Excl PPP)	230.756	198.706	Yes	
PI 8 - Operational Limit for External Debt (Excl PPP)	224.462	198.706	Yes	
PI 10 - Compliance with CIPFA code			Yes	
	%	%		Comment
PI 11 - Upper limit on fixed interest rate exposure	120.00%	115.76%	Yes	See Note
PI 12 - Upper limit on variable interest rate exposure	40.00%	-15.76%	Yes	See Note

PI 13 Borrowing fixed rate maturing in each period	Upper	Lower	Actual	Within Limits
Under 12 months	30%	0%	2.686%	Yes
1 - 2 years	30%	0%	0.151%	Yes
2 - 5 years	30%	0%	7.106%	Yes
5 - 10 years	30%	0%	20.833%	Yes
10 - 30 years	30%	0%	1.360%	Yes
30 - 50 years	40%	0%	30.967%	Yes
50 years and above	45%	0%	36.897%	Yes
TOTAL			100.000%	

	Limit For 2011/12 £	Maximum In Period £	Within Limit	Comment
PI 14 - Upper limit on sums invested for periods longer than 364 days	10,000,000	5,000,000	Yes	Investment matured 9/6/11

	Latest Estimated CFR For 31/3/2012	Net External Debt At 30/9/2011	Net External Debt Below CFR?	
	£million	£million		
Net External Debt Compared To Capital Financing Requirement (Excl PPP)	201.052	131.113	Yes	

Council Policy Limits				
	Limit per Council Policy	Actual As At 30/9/2011	Within Limits	
Maximum proportion of borrowing at variable interest rates	40%	23.619%	Yes	
Maximum proportion of debt restructuring in any one year	30%	0.000%	Yes	
Maximum proportion of debt repayable in any one year	25%	20.130%	Yes	

Note
The value for PI 12 (Upper Limit on Variable Interest Rate Exposure) is negative whilst the value for PI 11 (Upper Limit on Fixed Interest Rate Exposure) is above 100%. This is due to the indicators being calculated by taking the Council’s borrowing less the Council’s investments for each type of interest rate taken as a percentage of the Council’s total net borrowing. The reason for the unusual indicator figures is that the Council’s investments and deposit accounts are at variable interest rates.

Appendix 4

PRUDENTIAL INDICATORS AND LOANS FUND POOL RATE FOR INTEREST

PRUDENTIAL INDICATORS	**2009/10**	**2010/11**
	Actual	**Actual**
Capital Expenditure (Indicator 5)	£000	£000
Non – HRA (Including PPP)	37,175	17,501
Ratio of financing costs to net revenue stream (Indicator 1)		
Non – HRA (Including PPP)	7.48%	9.10%
Net borrowing requirement (Indicator 4)	£000	£000
As At 31 March	-43,522	-55,534
Capital Financing Requirement as at 31 March (Indicator 6)	£000	£000
Non – HRA (Including PPP)	204,743	206,735
Upper limit for total principal sums invested for over 364 days (Indicator 14)	£0	£5,000,000 (Maximum in year, was invested for 365 days)

LOANS FUND POOL RATE FOR INTEREST		
Year	Interest 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%	