Inverclyde council

AGENDA ITEM NO. 7

Report To:	**Policy & Resources Committee**	**Date:**	**13 November 2012**
Report By:	**Chief Financial Officer**	**Report No:**	**FIN/93/12/AP/KJ**
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Subject:	**Treasury Management – Mid-Year Review Report 2012/13**		

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 2012/13 in compliance with the CIPFA Code of Practice on Treasury Management with which the Council complies.

2.0 SUMMARY

2.1 As at 30th September 2012 the Council had debt of £224,562,668 and investments of £85,126,954.

2.2 The average rate of return achieved on investments during the first half of 2012/13 was 2.10% which exceeds the benchmark return rate for the period of 0.73% by 1.37% 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 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 12th April 2012 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 2012/13 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 2011 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 2012/13</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 2012/13.

4.4 This mid-year review report covers:

- The Council's Treasury Position as at 30th September 2012
- An economic update of the first six months of 2012/13
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy
- A review of the Council's investment portfolio for 2012/13
- A review of the Council's borrowing strategy for 2012/13
- A review of any debt restructuring undertaken during 2012/13
- A review of compliance with Treasury, Prudential, and Council Policy Limits for 2012/13.

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 2012

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

	30th September 2012		1st April 2012	
	Principal	Rate	Principal	Rate
	£000		£000	
Fixed Rate Funding:				
- PWLB	121,621		91,697	
- Market *	51,000		51,000	
	172,621	4.02%	142,697	4.29%
Variable Rate Funding:				
- PWLB	0		0	
- Market *	51,900		51,900	
- Temporary	42		43	
	51,942	4.79%	51,943	4.79%
Total Debt	**224,563**	**4.20%**	**194,640**	**4.43%**

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

	30th September 2012		1st April 2012	
	Principal	Return	Principal	Return
	£000		£000	
Investments:				
- External	72,500	2.59%	53,000	2.18%
- Deposit Accounts	12,627	0.56%	6,204	0.62%
Total Investments	**85,127**	**2.27%**	**59,204**	**2.02%**

In addition, the Council has items counting as investments under Scottish Government rules as at 30th September 2012 of £381,595 (down from £390,091 on 1st April 2012). 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:

Economic sentiment, in respect of the prospects for the UK economy to recover swiftly from recession, suffered a major blow in August when the Bank of England substantially lowered its expectations for the speed of recovery and rate of growth over the coming months and materially amended its forecasts for 2012 and 2013. It was noted that the UK economy is heavily influenced by worldwide economic developments, particularly in the Eurozone, and that on-going negative sentiment in that area would inevitably permeate into the UK's economic performance.

With regard to the Eurozone, investor confidence remains weak because successive "rescue packages" have first raised, and then disappointed, market expectations. However, the uncertainty created by the continuing Eurozone debt crisis is having a major effect in undermining business and consumer confidence not only in Europe and the UK, but also in America and the Far East/China.

In the UK, consumer confidence remains very depressed with unemployment concerns, indebtedness and a squeeze on real incomes from high inflation and low pay rises, all taking a toll. Whilst inflation has fallen considerably (CPI at 2.2% in September), UK GDP fell by 0.5% in the quarter to 30th June, the third quarterly fall in succession. This means that the UK's recovery from the initial 2008 recession has been the worst and slowest of any G7 country apart from Italy. It is also the slowest recovery from a recession of any of the five UK recessions since 1930 and total GDP is still 4.5% below its peak in 2008.

This weak recovery has caused social security payments to remain elevated and tax receipts to be depressed. Consequently, the Chancellor's plan to eliminate the annual public sector borrowing deficit has been pushed back further into the future. The Monetary Policy Committee has kept the Bank Rate at 0.5% throughout the period while quantitative easing was increased by £50bn to £375bn in July. In addition, in June, the Bank of England and the Government announced schemes to free up banking funds for business and consumers.

On a positive note, despite all the bad news on the economic front, the UK's sovereign debt remains one of the first ports of call for surplus cash to be invested in and gilt yields, prior to the ECB bond buying announcement in early September, were close to zero for periods out to five years and not that much higher out to ten years.

4.7 <u>Treasury Advisers' View of Next Six Months of 2012/13</u>
Sector advise that:

The risks in economic forecasts continue unabated from the previous treasury strategy. Concern has been escalating that the Chinese economy is heading for a rapid slowdown (a "hard landing") rather than a gentle slowdown, while America is hamstrung by political deadlock which prevents a positive approach to countering weak growth. Whether the presidential election in November will remedy this deadlock is debatable but urgent action will be required early in 2013 to address the US debt position. However, on 13th September the Federal Reserve announced an aggressive stimulus programme for the economy with a third round of quantitative easing focused on boosting the stubbornly weak growth in job creation, and with no time limit on this round. They also announced that it was unlikely that there would be any increase in interest rates until at least mid 2015.

Eurozone growth is expected to remain weak as austerity programmes in various countries curtail economic recovery. A crunch situation is rapidly developing in Greece as it has failed yet again to achieve deficit reduction targets and so may require another (third) bail-out. There is the distinct possibility that some of the northern European countries could push for the ejection of Greece from the Eurozone unless its financial prospects improve, which does not seem likely at this juncture. A financial crisis was also rapidly escalating over the situation in Spain. However, in early September the European Central Bank announced that it would purchase unlimited amounts of shorter-term bonds of those Eurozone countries that have formally agreed the terms for a bailout. Importantly, this support would be subject to conditions (which have yet to be set) and include supervision from the International Monetary Fund. This resulted in a surge in confidence that the Eurozone has at last put in place the framework for adequate defences to protect the Euro. However, it remains to be seen whether the politicians in Spain and Italy will accept such loss of sovereignty in the light of the verdicts that voters have delivered to the politicians in other peripheral countries that have accepted such supervision and austerity programmes. The Eurozone crisis is therefore far from being resolved as yet. The immediate aftermath of this announcement was a rise in bond yields in safe haven countries, including the UK. Nevertheless, this could prove to be as short lived as previous "solutions" to the Eurozone crisis.

The Bank of England Quarterly Inflation Report in August pushed back the timing of the return-to-trend growth and also lowered its inflation expectations. Nevertheless, concern remains that the Bank's forecasts of a weaker and delayed robust recovery may still prove to be over optimistic. Weak export markets will remain a drag on the economy and consumer expenditure will continue to be depressed due to a focus on paying down debt, negative economic sentiment and job fears. The Coalition Government, meanwhile, is likely to be hampered in promoting growth by the requirement of maintaining austerity measures to tackle the budget deficit.

The overall balance of risks is, therefore, weighted to the downside:

- Sector expect low growth in the UK to continue, with the Bank Rate unlikely to rise in the next 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 eventually 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, tempering any increases in yield.
- This interest rate forecast is based on an assumption that growth starts to recover in the next three years to a near trend rate (2.5%). However, if the Eurozone debt crisis worsens as a result of one or more countries having to leave the Euro, or low growth in the UK continues longer, then the Bank Rate is likely to be depressed for even longer than in this forecast.

4.8 Sector's Interest Rate Forecast

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

	Mid Sept-12 Actual	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	0.50	0.75	1.00
3 month LIBID	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.70	0.90	1.10	1.40
6 month LIBID	0.85	0.85	0.85	0.85	0.85	0.85	1.00	1.10	1.30	1.50	1.80
12 month LIBID	1.30	1.30	1.30	1.30	1.40	1.50	1.70	1.90	2.10	2.30	2.60
5yr PWLB	1.89	1.50	1.50	1.50	1.60	1.70	1.80	1.90	2.00	2.10	2.30
10yr PWLB	2.91	2.50	2.50	2.50	2.60	2.70	2.80	2.90	3.00	3.20	3.30
25yr PWLB	4.15	3.70	3.70	3.70	3.80	3.80	3.90	4.00	4.10	4.20	4.30
50yr PWLB	4.32	3.90	3.90	3.90	4.00	4.00	4.10	4.20	4.30	4.40	4.50

The above Sector forecasts for PWLB rates incorporate the introduction of the PWLB certainty rate on 1 November 2012 which will reduce interest rates for new PWLB borrowing from that date by 0.20% for local authorities that apply to access the rate (as most local authorities have done, including Inverclyde Council).

4.9 Treasury Management Strategy Statement and Annual Investment Strategy Update

The Treasury Management Strategy Statement for 2012/13 was approved by the Council on 12th April 2012. 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 2012/13 across all maturity bands. The following borrowing, amounting to £30,000,000, has been undertaken this year to fund forthcoming capital expenditure:

May 2012

- £10,000,000 at 2.88% for 9½ years

July 2012

- £5,000,000 at 2.31% for 8 years
- £7,500,000 at 2.69% for 11 years
- £7,500,000 at 2.79% for 11½ years.

No further borrowing is anticipated in this financial year.

Investments during the first six months of the year have been undertaken in line with the Strategy and no changes to credit ratings for UK and other banks and financial institutions have required action by the Council. Continued caution is, however, being exercised with the position 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 12th April 2012 are still appropriate.

4.10 Investment Portfolio 2012/13

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 2012/13	Annualised Rate of Return (gross of fees)	Benchmark Return (3 Month LIBID uncompounded)
£78,000,000	2.10%	0.73%

The Council have outperformed the benchmark by 1.37% resulting in additional income to the Council in the period of £534,300 largely due to the Council undertaking investments for longer periods than the 3 month benchmark. Investments are largely with UK Nationalised/Part Nationalised Banks which, with UK Government backing, are considered to be lower risk.

A full list of investments held as at 30th September 2012, compared to Sector's counterparty list and to the position at 1st April 2012, is shown in Appendix 2.

4.11 New External Borrowing

The Council's capital financing requirement (CFR) is, based on the latest capital programme, £30.7m for financial year 2012/13 and £36.9m for 2013/14 (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.

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 1st April – 30th September 2012					
	1 year	5 year	10 year	25 year	50 year
High	1.33%	2.15%	3.28%	4.39%	4.43%
Date	19/04/2012	20/04/2012	02/04/2012	02/04/2012	02/04/2012
Low	1.00%	1.52%	2.52%	3.81%	3.96%
Date	02/08/2012	23/07/2012	23/07/2012	18/07/2012	01/06/2012
Average	1.17%	1.80%	2.81%	4.03%	4.19%
Spread between High and Low	0.33%	0.63%	0.76%	0.58%	0.47%
01/04/2012	1.28%	2.05%	3.21%	4.32%	4.36%
30/09/2012	1.15%	1.67%	2.64%	3.98%	4.14%
Spread between 01/04/2012 and 30/09/2012	0.13%	0.38%	0.57%	0.34%	0.22%

The Council has not borrowed in advance of need in 2012/13 and has no intention of doing so.

4.12 Debt Rescheduling

No debt rescheduling was undertaken during the first six months of 2012/13.

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 the Counterparty Limit with the Bank of Scotland as follows:

a. The limit was exceeded for 4 days in May 2012 as previously reported to Committee and for which homologation and an increase in limit to the end of August 2012 was approved.
b. The limit has been exceeded on a number of occasions in September and October 2012 due to short-term cash flow issues in advance of further expenditure.

The Council is requested to homologate the exceeding of the limit as explained in b. above.

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

4.14 Performance Measurement 2011/12

Appendix 4 shows the outturn for Prudential Indicators for 2010/11 and 2011/12 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 runs 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 £534,300. 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.

It is expected that a substantial saving in Loan Charges arising from actions taken by the Treasury Management Team will be able to be built into the 2013/16 budget.

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 2011)
Scottish Government – Finance Circular 5/2010 – The Investment of Money By Scottish Local Authorities
Inverclyde Council – Treasury Management Strategy and Annual Investment Strategy 2012/13-2014/15.

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
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.

Certificates of Deposit
Certificates of Deposit (or CDs) are a form of investment and similar to Fixed Term Deposits in that the investment is with a named Bank or Financial Institution, matures on a set date, and is repaid with interest on the maturity date. Unlike a Fixed Term Deposit, a CD can also be traded in the market prior to maturity.

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.

The highest credit rating is AAA.

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.

Fixed Term Deposit

A Fixed Term Deposit or Fixed Term Investment is an investment with a named Bank or Financial Institution which matures on a set date and which is repaid with interest on the maturity date. Fixed Term Deposits cannot be traded and cannot be terminated before the maturity date without the payment of a penalty (if at all).

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.

G7/G8/G20

These are forums for discussions by the governments of large world economies.

The G7 is comprised of Canada, France, Germany, Italy, Japan, the UK, and the USA. The G8 is the G7 plus Russia (with the European Union also attending). The G20 is comprised of 19 countries (including the G7 and Russia) plus the European Union.

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 last revised in November 2011.

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 Certainty Rate
In the Budget in March 2012, the Chancellor of the Exchequer announced that local authorities that provide information on their long-term borrowing and capital spending plans would be eligible for a 0.20% discount rate for new PWLB borrowing. This PWLB Certainty Rate comes into effect on 1 November 2012.

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.

Sovereign Debt
The public/national debt owed by a country or countries.

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 last revised in November 2011.

Treasury Management Indicators
These are Prudential Indicators specifically relating to Treasury Management issues.

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 2012.

Appendix 2

INVESTMENT PORTFOLIO

This Appendix shows the Council's Investment Portfolio as at 1st April 2012 and as at 30th September 2012. The Portfolio includes items included as Other Investments under the latest guidance on such matters.

Investments As At 1st April 2012					
	Sector Colour Category And Maximum Investment Period	Annual Rate	Amount	Deposit Type	Maturity Date
Investments			£		
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
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
Bank of Scotland	BLUE - 12 Months	2.15%	5,000,000	Fixed Term	29-Nov-12
Bank of Scotland	BLUE - 12 Months	2.50%	5,000,000	Fixed Term	14-Dec-12
Santander UK	NO COLOUR - No New Deals	1.49%	5,000,000	Fixed Term	13-Apr-12
Bank of Scotland	BLUE - 12 Months	2.50%	5,000,000	Fixed Term	27-Feb-13
Bank of Scotland	BLUE - 12 Months	2.55%	5,000,000	Fixed Term	25-Mar-13
			53,000,000		
Deposit Accounts					
Bank of Scotland	BLUE - 12 Months	0.50%	3,723,300	Call	---
Santander UK	NO COLOUR - No New Deals	0.80%	2,427,711	Call	---
Santander UK	NO COLOUR - No New Deals	0.90%	53,334	30-Day Notice	---
			6,204,345		
Other Investments					
Holdings of Shares, Bonds, and Units	---	---	2,000	War Stock	---
Loans Made To Third Parties	---	---	388,091	---	---
Investment Properties	---	---	0	---	---
			390,091		
TOTAL			**59,594,436**		

Investments As At 30th September 2012					
	Sector Colour Category And Maximum Investment Period	Annual Rate	Amount	Deposit Type	Maturity Date
Investments			£		
Bank of Scotland	BLUE - 12 Months	2.15%	5,000,000	Fixed Term	29-Nov-12
Bank of Scotland	BLUE - 12 Months	2.50%	5,000,000	Fixed Term	14-Dec-12
Bank of Scotland	BLUE - 12 Months	2.50%	5,000,000	Fixed Term	27-Feb-13
Bank of Scotland	BLUE - 12 Months	2.55%	5,000,000	Fixed Term	25-Mar-13
Bank of Scotland	BLUE - 12 Months	2.65%	5,000,000	Fixed Term	15-Apr-13
Bank of Scotland	BLUE - 12 Months	2.65%	5,000,000	Fixed Term	13-May-13
RBS	BLUE - 12 Months	2.25%	10,000,000	Fixed Term	22-May-13
Bank of Scotland	BLUE - 12 Months	2.85%	5,000,000	Fixed Term	06-Jun-13
Bank of Scotland	BLUE - 12 Months	2.85%	5,000,000	Fixed Term	08-Jul-13
Bank of Scotland	BLUE - 12 Months	3.00%	7,500,000	Fixed Term	04-Jul-13
Bank of Scotland	BLUE - 12 Months	2.85%	5,000,000	Fixed Term	12-Aug-13
RBS	BLUE - 12 Months	2.25%	5,000,000	Fixed Term	21-Aug-13
Bank of Scotland	BLUE - 12 Months	2.70%	5,000,000	Fixed Term	11-Sep-13
			72,500,000		
Deposit Accounts					
Bank of Scotland	BLUE - 12 Months	0.50%	10,131,200	Call	---
Santander UK	NO COLOUR - No New Deals	0.80%	2,442,231	Call	---
Santander UK	NO COLOUR - No New Deals	0.90%	53,523	30-Day Notice	---
			12,626,954		
Other Investments					
Holdings of Shares, Bonds, and Units	---	---	2,000	War Stock	---
Loans Made To Third Parties	---	---	379,595	---	---
Investment Properties	---	---	0	---	---
			381,595		
TOTAL			**85,508,549**		

PRUDENTIAL/TREASURY INDICATORS AND COUNCIL POLICY LIMITS

Prudential and Treasury Indicators				
	Estimate For 2012/13	Actual For 2012/13 To 30/9/2012	Within Limits	
	£million	£million		
PI 7 - Authorised Limit for External Debt (Excl PPP)	246.787	224.563	Yes	
PI 8 - Operational Limit for External Debt (Excl PPP)	240.057	224.563	Yes	
PI 10 - Compliance with CIPFA code			Yes	
	%	%		Comment
PI 11 - Upper limit on fixed interest rate exposure	150.000%	123.799%	Yes	See Note
PI 12 - Upper limit on variable interest rate exposure	40.000%	-23.799%	Yes	See Note
PI 13 Borrowing fixed rate maturing in each period (LOBOs included based on call dates rather than maturity dates)	Upper	Lower	Actual	Within Limits
Under 12 months	40%	0%	0.088%	Yes
1 - 2 years	40%	0%	11.181%	Yes
2 - 5 years	40%	0%	27.814%	Yes
5 - 10 years	40%	0%	23.824%	Yes
10 - 30 years	40%	0%	9.865%	Yes
30 - 50 years	40%	0%	27.228%	Yes
50 years and above	40%	0%	0.000%	Yes
TOTAL			100.000%	
	Limit For 2012/13 £	Maximum In Period £	Within Limit	Comment
PI 14 - Upper limit on sums invested for periods longer than 364 days	10,000,000	0	Yes	---
	Latest Estimated CFR For 31/3/2013	Net External Debt At 30/9/2012	Net External Debt Below CFR?	
	£million	£million		
Net External Debt Compared To Capital Financing Requirement (Excl PPP)	226.910	139.436	Yes	
Council Policy Limits				
	Limit per Council Policy	Actual As At 30/9/2012	Within Limits	
Maximum proportion of borrowing at variable interest rates	40%	23.130%	Yes	
Maximum proportion of debt restructuring in any one year	30%	0.000%	Yes	
Maximum proportion of debt repayable in any one year	25%	17.812%	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	**2010/11**	**2011/12**
	Actual	**Actual**
Capital Expenditure (Indicator 5)	£000	£000
Non – HRA (Including PPP)	17,501	84,860
Ratio of financing costs to net revenue stream (Indicator 1)		
Non – HRA (Including PPP)	9.10%	10.77%
Net borrowing requirement (Indicator 4)	£000	£000
As At 31 March	-55,534	-57,092
Capital Financing Requirement as at 31 March (Indicator 6)	£000	£000
Non – HRA (Including PPP)	206,735	271,815
Upper limit for total principal sums invested for over 364 days (Indicator 14)	£5,000,000 (Maximum in year, was invested for 365 days)	£0

LOANS FUND POOL RATE FOR INTEREST		
Year	Interest Rate	Comments
2007/08	6.274%	Stock Transfer took place in 2007/08
2008/09	4.608%	
2009/10	3.805%	
2010/11	4.300%	
2011/12	4.208%	