Inverclyde council

AGENDA ITEM NO. 10

Report To:	**Policy & Resources Committee**	**Date:**	**23 September 2014**
Report By:	**Acting Corporate Director Environment, Regeneration & Resources**	**Report No:**	**FIN/44/14**
Contact Officer:	**Jan Buchanan**	**Contact No:**	**01475 712223**

Subject: **TREASURY MANAGEMENT – ANNUAL REPORT 2013/14**

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 2013/14 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 31 March 2014 the Council had debt (excluding PPP) of £220,111,474 and investments of £48,108,524. This compares to debt (excluding PPP) of £224,411,117 and investments of £67,314,005 at 31 March 2013.

2.2 The average rate of return achieved on investments during 2013/14 was 1.20% which exceeds the benchmark return rate for the year of 0.39% by 0.81% and resulted in £496,500 of additional interest on investments for the Council.

2.3 During 2013/14 the Council did not undertake any debt restructuring and operated within the required treasury limits and Prudential Indicators for the year set out in the Council's Treasury Policy Statement, annual Treasury Strategy Statement, and the Treasury Management Practices. In 2014/15 to date, the Council has remained within its limits apart from as explained in paragraph 4.10.

2.4 From 2013/14 onwards the Council is required to compare its Gross External Debt (£291.875m including PPP) to its Capital Financing Requirement (£303.766m). The Gross External Debt at 31 March 2014 was £11.891m (3.9%) less than the Capital Financing Requirement and so the Council was in an underborrowed position (and remains so, having undertaken no borrowing so far in 2014/15).

3.0 RECOMMENDATIONS

3.1 It is recommended that the Committee notes the contents of the annual report on Treasury Management for 2013/14 and the ongoing work to ensure the delivery of financial benefits for the Council and homologates the exceeding of Council limits in 2014/15 as explained in paragraph 4.10.

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

Jan Buchanan
Head of Finance

4.0 BACKGROUND

4.1 The Council is required by regulations issued under the Local Government in Scotland Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2013/14.

Annual Report for 2013/14

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."

This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

4.3 This annual treasury report covers:

- the Council's treasury position as at 31st March 2014;
- performance measurement;
- the strategy for 2013/14;
- the wider economy and interest rates in 2013/14;
- the borrowing outturn for 2013/14;
- debt rescheduling;
- compliance with treasury limits and Prudential Indicators in 2013/14;
- investment strategy and outturn for 2013/14;
- other issues.

Treasury Management is a complex area with its own terminology and acronyms and so a Glossary of Terms is attached as Appendix 1.

4.4 Treasury Position As At 31st March 2014

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

	31st March 2014		31st March 2013	
	Principal	Rate	Principal	Rate
	£000		£000	
Fixed Rate Funding:				
- PWLB	117,168		121,468	
- Market *	55,000		56,000	
	172,168	3.99%	177,468	3.97%
Variable Rate Funding:				
- PWLB	0		0	
- Market *	47,900		46,900	
- Temporary	43		43	
	47,943	4.97%	46,943	5.04%
Total Debt	**220,111**	**4.21%**	**224,411**	**4.19%**

* - Market Loans are shown as variable when they have less than 1 year to go until their next call date. The total value of Market Loans has not changed between 2012/13 and 2013/14, just the split between fixed and variable.

	31st March 2014		31st March 2013	
	Principal	Return	Principal	Return
	£000		£000	
Investments:				
- External	32,500	1.02%	57,500	2.51%
- Deposit Accounts	15,609	0.50%	9,814	0.58%
Total Investments	**48,109**	**0.85%**	**67,314**	**2.23%**

4.5 <u>Performance Measurement</u>

One of the key changes in a previous revision of the Code 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
2009/10	3.805%
2010/11	4.300%
2011/12	4.208%
2012/13	3.811%
2013/14	3.831%

4.6 <u>Strategy For 2013/14</u>

The Council's borrowing strategy for 2013/14 was based on the following information:

- The Bank Rate was expected to remain at 0.50% until Quarter 1 of 2015 when it would increase to 0.75% then to 1.00% in Quarter 2 of 2015.
- PWLB rates were expected to increase during the year by around 0.10% to 0.20% with PWLB rates on shorter period loans expected to be significantly lower than longer term PWLB rates.
- The difference between short term and longer term borrowing rates was expected to give significant opportunities to generate savings by switching from long term debt to short term debt. These savings were, however, to be considered in the light of their short term nature and the likely cost of refinancing those short term loans, once they matured, compared to the current rates of longer term debt in the Council's debt portfolio.
- Growth prospects were considered to be weak and consumer spending, the usual driving force of recovery, was thought likely to remain under pressure due to consumers focusing on repayment of personal debt, inflation eroding disposable income, general malaise about the economy and employment fears.

The challenging and uncertain economic outlook had several key treasury management implications:

- The Eurozone sovereign debt difficulties provided a clear indication of high counterparty risk;
- Investment returns were likely to remain relatively low during 2013/14 and beyond;
- Borrowing interest rates continued to be attractive and possibly remain relatively low for some time. The timing of any borrowing needed to be monitored carefully;
- There was expected to remain a possible cost of carry, with any borrowing undertaken resulting in an increase in investments that could incur a revenue loss between borrowing costs and investment returns.

Officers, in conjunction with the treasury consultants, were to continually monitor both the prevailing interest rates and the market forecasts, adopting the following responses to a change of sentiment:

- If it were felt that there was a significant risk of a sharp fall in long and short term rates, e.g. due to a marked increase of risks around relapse into recession or of risks of deflation, then long term borrowings would be postponed, and potential rescheduling from fixed rate funding into short term borrowing would be considered.
- If it were felt that there was a significant risk of a much sharper rise in long and short term rates than that forecast, perhaps arising from a greater than expected increase in world economic activity or a sudden increase in inflation risks, then the portfolio position would be re-appraised with the likely action that fixed rate funding would be drawn whilst interest rates were still relatively cheap.

Against this background, and with regard to the level of Council investments, caution was to be adopted with the 2013/14 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 the Policy & Resources Committee.

4.7 <u>The Wider Economy and Interest Rates In 2013/14</u>

The original expectation for 2013/14 was that Bank Rate would not rise during the year and for it only to start gently rising from quarter 1 2015 and this remains the case. Economic growth (GDP) in the UK was virtually flat during 2012/13 but surged strongly during the year. Consequently there was no additional Quantitative Easing during 2013/14 and the Bank Rate ended the year unchanged at 0.5% for the fifth successive year. While CPI inflation had remained stubbornly high and substantially above the 2% target during 2012, by January 2014 it had, at last, fallen below the target rate to 1.9% and then fell further to 1.7% in February. It is also expected to remain slightly below the target rate for most of the two years ahead.

Gilt yields were on a sharply rising trend during 2013 but volatility returned in the first quarter of 2014 as various fears sparked a flight to quality. The Funding for Lending Scheme, announced in July 2012, resulted in a flood of cheap credit being made available to banks which then resulted in money market investment rates falling drastically in the second half of that year and continuing into 2013/14. That part of the Scheme which supported the provision of credit for mortgages was terminated in the first quarter of 2014 as concerns rose over resurging house prices.

The UK coalition Government maintained its tight fiscal policy stance but recent strong economic growth led to a cumulative, in the Autumn Statement and the March Budget, reduction in the forecasts for total borrowing, of £97bn over the next five years, culminating in a £5bn surplus in 2018-19.

The EU sovereign debt crisis subsided during the year and confidence in the ability of the Eurozone to remain intact increased substantially. Perceptions of counterparty risk improved after the European Central Bank statement in July 2012 that it would do “whatever it takes” to support struggling Eurozone countries; this led to a return of confidence in its banking system which has continued into 2013/14 and led to a move away from only very short term investing. This is not to say that the problems of the Eurozone, or its banks, have ended as the zone faces the likelihood of weak growth over the next few years at a time when the total size of government debt for some nations is likely to continue rising. Upcoming stress tests of Eurozone banks could also reveal some areas of concern.

4.8 Borrowing Outturn For 2013/14
The Council undertook no borrowing during the year.

4.9 Debt Rescheduling

Rescheduling Strategy – As with 2012/13, the Council's treasury consultants started the year with the expectation that PWLB rates were expected to rise but that rates were more difficult to predict given that the rates are based on volatile UK gilt yields. Short term borrowing rates were expected to be considerably cheaper than longer term rates with significant opportunities to generate savings by switching from long term debt to short term debt. Moving from long term to short term debt would, however, mean taking on a greater risk exposure to having to re-borrow longer term in later years at considerably higher rates.

Rescheduling Outturn For 2013/14 – The Council undertook no debt restructuring in 2013/14.

4.10 Compliance With Treasury Limits and Prudential Indicators in 2013/14 and 2014/15 To Date
During the financial year the Council operated within the required treasury limits and Prudential Indicators for 2013/14 set out in the Council's Treasury Policy Statement, annual Treasury Strategy Statement, and the Treasury Management Practices.

From 2013/14 (as included in Appendix 2), the Council is required to compare its Gross External Debt to the Capital Financing Requirement (previously the requirement was to compare the Net External Debt). For 2013/14 the Gross External Debt of £291.875m was £11.891m (3.9%) less than the Capital Financing Requirement at 31 March 2014 of £303.766m and so the Council was in an underborrowed position (and remains so, having not borrowed so far in 2014/15).

During 2014/15 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. For 2 days in July 2014 the £60m limit was exceeded by a maximum of £0.6m. This was due to funds being transferred to the Bank of Scotland temporarily following a reduction in investment rates from another counterparty.

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

4.11 Investment Strategy and Outturn for 2013/14

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 11 April 2013. 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 2015 and then to rise gently from thereon. Bank Rate forecasts for financial year ends (March) were as follows (compared to the latest position):

	Forecast Per 2013/14 Strategy	Actual/Latest Forecast	
2013/14	0.50%	0.50%	(Actual)
2014/15	0.75%	0.75%	(Forecast)
2015/16	1.75%	1.25%	(Forecast)

The forecast increases in interest rates may well be delayed if the recovery from the recession proves to be weaker and slower than expected.

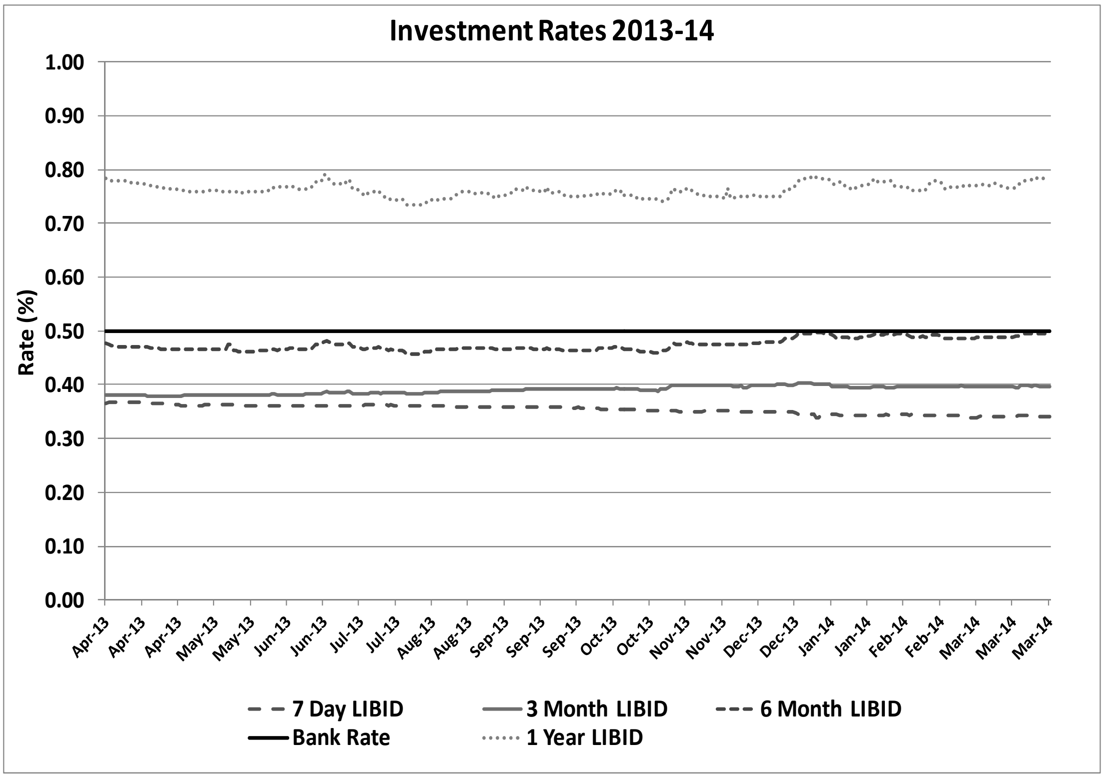
<u>Investment Rates and Outturn for 2013/14</u> –The Bank Rate remained at its historic low of 0.50% throughout the year, the same level it has been at since March 2009.

Deposit rates remained at low levels during the year, largely due to the Funding for Lending Scheme.

The Council's investment policy is governed by Scottish Government investment regulations which have been implemented in the annual investment strategy approved by the Council on 11 April 2013. The policy sets out the approach for choosing investment 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, etc.).

All investments were in accordance with the policy and no institutions with which investments were made had any difficulty in repaying investments and interest in full during the year.

The result of the investment strategy undertaken by the Council in 2013/14 is as follows:



Average Investment	Rate of Return (gross of fees)	Benchmark Return (3 month LIBID uncompounded)
£61,300,000	1.20%	0.39%

The Council have outperformed the benchmark by 0.81% resulting in additional income to the Council of £496,500.

This performance is due to the Council undertaking fixed term investments at interest rates that were well above the benchmark with a counterparty which has high creditworthiness (the Bank of Scotland) and in accordance with the Council's investment strategy.

The level of Deposit Rates during the year means that the Council will not achieve similar performance against the benchmark in future.

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 £496,500. 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, trading as Capita Asset Services).

7.0 LIST OF BACKGROUND PAPERS

7.1 CIPFA - Treasury Management in the Public Services – Code of Practice and Cross-Sectoral Guidance Notes – 2011 Edition
Inverclyde Council – Treasury Management Strategy 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".

Call Date
A date on which a lender for a LOBO loan can seek to apply an amended interest rate to the loan. The term "call date" is also used in relation to some types of investments with a maturity date where the investments can be redeemed on call dates prior to the maturity date.

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 Code of Practice on Local Authority Accounting in the United Kingdom 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 (including PPP schemes).

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 18 countries: Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, 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 Bank 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.

Growth
Positive growth in an economy is an increase in the amount of goods and services produced by that economy over time. Negative growth in an economy is a reduction in the amount of goods and services produced by that economy over time.

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 Interbank 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 Rates
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. The PWLB Certainty Rates came into effect on 1st 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 and who use Capita Asset Services as a trading name.

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
August 2014.

Appendix 2

PRUDENTIAL/TREASURY INDICATORS AND COUNCIL POLICY LIMITS

	Estimate For 2013/14	Actual For 2013/14 To 31/3/2014	Within Limits	
	£million	£million		
PI 7 - Authorised Limit for External Debt (Excluding PPP)	266.000	220.111	Yes	
PI 8 - Operational Limit for External Debt (Excluding PPP)	258.800	220.111	Yes	
PI 10 - Compliance with CIPFA code			Yes	
	%	%		Comment
PI 11 - Upper limit on fixed interest rate exposure	150.000%	100.096%	Yes	See Note
PI 12 - Upper limit on variable interest rate exposure	40.000%	-0.096%	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 As At 31/3/2014	Within Limits
Under 12 months	40%	0%	0.000%	Yes
12 months and within 24 months	40%	0%	3.366%	Yes
24 months and within 5 years	40%	0%	35.839%	Yes
5 years and within 10 years	40%	0%	28.028%	Yes
10 years and within 30 years	40%	0%	9.534%	Yes
30 years and within 50 years	40%	0%	23.233%	Yes
50 years and within 70 years	40%	0%	0.000%	Yes
TOTAL			100.000%	

	Limit For 2013/14 £	Maximum In Period £	Within Limit	Comment
PI 14 - Upper limit on sums invested for periods longer than 364 days	10,000,000	0	Yes	---

	CFR At 31/3/2014	Gross External Debt At 31/3/2014	Gross External Debt Below CFR?	
	£million	£million		
Gross External Debt Compared To Capital Financing Requirement (Including PPP)	303.766	291.875	Yes	

Council Policy Limits

	Limit per Council Policy	Actual As At 31/3/2014	Within Limits	
Maximum proportion of borrowing at variable interest rates	40%	21.782%	Yes	
Maximum proportion of debt restructuring in any one year	30%	0.000%	Yes	
Maximum proportion of debt repayable in any one year	25%	18.173%	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 3

PRUDENTIAL INDICATORS

	2012/13	2013/14
	Actual	**Actual**
Capital Expenditure (Indicator 5)	£000	£000
Non - HRA #	48,578	32,096
HRA ##	0	0
TOTAL	48,578	32,096
Ratio of financing costs to net revenue stream (Indicator 1)		
Non – HRA	11.93%	12.50%
HRA ##	0.00%	0.00%
Net borrowing requirement (Indicator 4)	£000	£000
As At 31 March	-66,005	-60,000
Capital Financing Requirement as at 31 March (Indicator 6)	£000	£000
Non - HRA #	296,906	303,766
HRA ##	0	0
TOTAL	296,906	303,766
	£000	£000
Upper limit for total principal sums invested for over 364 days (Indicator 14)	0	0
# - The Indicator includes PPP schools, as required by the accounting rules. ## - The Council undertook Housing Stock Transfer during 2007/08.		