Inverclyde council

**AGENDA ITEM NO. 9**

| | | | |
|---|---|---|---|
| **Report To:** | **Policy & Resources Committee** | **Date:** | **20 June 2017** |
| **Report By:** | **Chief Financial Officer** | **Report No:** | **FIN/38/17/AP/KJ** |
| **Contact Officer:** | **Alan Puckrin** | **Contact No:** | **01475 712223** |
| **Subject:** | **TREASURY MANAGEMENT – ANNUAL REPORT 2016/17** | | |

## 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 2016/17 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 2017 the Council had gross external debt (including PPP) of £273,735,658 and investments of £38,935,922. This compares to gross external debt (including PPP) of £280,951,047 and investments of £51,529,212 at 31 March 2016.

2.2 The Council's Capital Financing Requirement at 31 March 2017 was £307,899,000. The gross external debt was £34,163,342 (11.1%) 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 2017/18. This is attributable to the level of cash backed reserves held by the Council.

2.3 The average rate of return achieved on investments during 2016/17 was 0.720% which exceeds the benchmark return rate for the year of 0.315% by 0.405% and resulted in £178,800 of additional interest on investments for the Council.

2.4 During 2016/17 and in 2017/18 to date 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.

2.5 As a result of various political issues around the world during the year, including the result of the EU Referendum in June 2016, there has been volatility in the financial markets and increased economic uncertainty in the UK and globally and the first change to UK interest rates since 2009. The situation is being closely monitored for both risks and opportunities.

## 3.0 RECOMMENDATIONS

3.1 It is recommended that the Committee notes the contents of the annual report on Treasury Management for 2016/17 and the ongoing work to seek to ensure the delivery of financial benefits for the Council during the current uncertainty and beyond.

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

3.3 It is recommended that the Committee notes that training on Treasury matters will be provided to all Members over the summer.

Alan Puckrin
Chief Financial Officer

## 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 2016/17.

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."

4.3 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). The report also includes a new section on Loan Fund Advances (section 6) which includes information required by regulations that came into effect on 1 April 2016.

A glossary of treasury management terms is attached as Appendix 1.

4.4 It is intended that all Councillors will receive Treasury Management training in the coming months as this is a complex but important area of the Council's financial responsibilities.

## 5.0 ANNUAL REVIEW

5.1 The treasury management issues arising during the year were:

a. The Council's debt (including PPP) has reduced during the year by £7.215m due to repaying maturing debt without undertaking new borrowing. Council investments reduced by £12.593m in the year.
b. As at 31 March 2017 the Council had under borrowed against its capital financing requirement by £34.163m. No borrowing has been undertaken during 2017/18 to date.
c. The Council did not undertake any debt restructuring during 2016/17 and remained within its Prudential Indicator and Treasury Management limits during the year.
d. The Bank Rate was changed in August 2016 for the first time since March 2009 when the rate was cut from 0.50% to a new record low of 0.25%. The Bank of England also undertook further Quantitative Easing.
e. PWLB rates for new borrowing were expected to increase by between 0.30% and 0.50% during the year. Rates for new borrowing actually fell over the year by 0.30% for short-term to 0.58% for long-term. These movements were not uniform during the year. Volatility resulted in record low rates for most borrowing periods in August 2016 and the difference in rates for some loan periods between their highest and lowest levels during the year being 0.44% for some short-term loans but 1.22% for longer periods.
f. Two of the Council's LOBO loans had their "lender option" feature removed by the lender (as they did with many of their clients) and so these market loans have become fixed rate loans at their existing interest rates.
g. Investment returns, that were expected to remain relatively low, fell further following the cut in the Bank Rate.
h. The Council's investments earned a rate of return of 0.720% during the year and outperformed the benchmark return of 0.315% resulting in additional income to the Council of £178,800.
i. All investments were in accordance with the Council's investment policy and no institutions with which investments were made had any difficulty in repaying those investments and interest in full during the year.
j. The Council's investment performance is due to undertaking fixed term and 95/120 day notice account investments at interest rates that were above the benchmark with counterparties which have high creditworthiness (the Bank of Scotland and Santander UK) and in accordance with the Council's investment strategy.

5.2 The result of the EU Referendum in June 2016 and other political events globally during the year has resulted in increased volatility in the financial markets and economic uncertainty in the UK and around the world.

Given the continuing uncertainty and the speed with which events are taking place, the situation continues to be closely monitored for both risks and opportunities.

5.3 The Council's Year End debt position was as follows:

| | At 31 March 2016 | At 31 March 2017 |
|---|---|---|
| | £ | £ |
| Total Excluding PPP | 213,224,047 | 208,047,658 |
| PPP Debt | 67,727,000 | 65,688,000 |
| Total Including PPP | 280,951,047 | 273,735,658 |

Further detail is given in the following table:

| | At 31 March 2016 | | At 31 March 2017 | | Movement 2016/17 |
|---|---|---|---|---|---|
| | Principal | Rate | Principal | Rate | Principal |
| | £000 | | £000 | | £000 |
| Fixed Rate Funding: | | | | | |
| - PWLB | 110,684 | | 105,155 | | (5,529) |
| - Market * | 71,000 | | 40,000 | | (31,000) |
| | 181,684 | 4.05% | 145,155 | 3.87% | (36,529) |
| Variable Rate Funding: | | | | | |
| - PWLB | 0 | | 0 | | 0 |
| - Market * | 31,400 | | 62,400 | | 31,000 |
| - Temporary # | 140 | | 493 | | 353 |
| | 31,540 | 4.96% | 62,893 | 4.90% | 31,353 |
| Total Debt (Excl PPP) | 213,224 | 4.18% | 208,048 | 4.18% | (5,176) |
| PPP Debt | 67,727 | | 65,688 | | (2,039) |
| Total Debt (Incl PPP) | 280,951 | | 273,736 | | (7,215) |

* - 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 financial years, just the split between fixed and variable.

# - Temporary Loans increased during the year due to Scottish Government requirements that, from 1 April 2016, funds held by the Council on behalf of the Common Good and Trust Funds are to be treated as borrowing for Treasury Management purposes.

5.4 The Council's investment position was as follows:

| | At 31 March 2016 | | At 31 March 2017 | | Movement 2016/17 |
|---|---|---|---|---|---|
| | Principal | Return | Principal | Return | Principal |
| | £000 | | £000 | | £000 |
| Investments: | | | | | |
| - Fixed Term Deposits | 25,500 | 0.85% | 16,000 | 0.62% | (9,500) |
| - Notice Accounts (95 Day and 120 Day) | 14,529 | 0.95% | 14,603 | 0.70% | 74 |
| - Deposit Accounts | 11,500 | 0.50% | 8,333 | 0.25% | (3,167) |
| Totals | 51,529 | 0.80% | 38,936 | 0.57% | (12,593) |

Maximum level of investments in 16/17: £53,962,026 on 16 September 2016
Minimum level of investments in 16/17: £36,263,427 on 29 November 2016
Daily average for the year 16/17: £44,142,601

5.5 2016/17 Outturn Compared to Estimates in 2016/17 Strategy

The 2016/17 outturn compared to the estimates in the 2016/17 strategy:

| | 2016/17 Estimate | 2016/17 Outturn |
|---|---|---|
| Borrowing Requirement | £000 | £000 |
| New borrowing | 0 | 0 |
| Alternative financing requirements | 0 | 0 |
| Replacement borrowing | 5,000 | 0 |
| TOTAL | 5,000 | 0 |
| | | |
| Prudential/Treasury Management Indicators | £000 | £000 |
| Gross external debt including PPP (As at 31 March 2017) | 278,842 | 273,736 |
| Capital financing requirement (As at 31 March 2017) | 314,741 | 307,899 |
| (Under)/over borrowing against CFR | (35,899) | (34,163) |
| Net external borrowing and capital financing requirement (As at 31 March) | £000<br>(66,464) | £000<br>(73,099) |
| Capital expenditure | £000 | £000 |
| • Capital Programme | 33,632 | 27,392 |
| • PPP Schools/Finance Leases (incl. accounting adjustments) | (1,908) | (2,039) |
| Total | 31,724 | 25,353 |
| Ratio of financing costs (including PPP/Finance Leases) to net revenue stream | 13.38% | 13.75% |
| Incremental impact of capital investment decisions - incremental increase in council tax (band D) per annum (use of capital receipts and prudential borrowing for capital expenditure) | £2.61 | £2.39 |
| | | |

5.6 2016/17 Outturn Compared to Limits in 2016/17 Strategy

The 2016/17 outturn compared to limits in the 2016/17 strategy:

| | 2016/17 Limits | 2016/17 Outturn |
|---|---|---|
| Prudential/Treasury Management Indicators<br>Authorised limit for external debt | £000 | £000 |
| • Borrowing | 229,000 | 208,048 |
| • Other long term liabilities | 68,000 | 65,688 |
| | 297,000 | 273,736 |
| Operational boundary for external debt | £000 | £000 |
| • Borrowing | 219,000 | 208,048 |
| • Other long term liabilities | 68,000 | 65,688 |
| | 287,000 | 273,736 |
| Upper limit for fixed interest rate exposure (Actual is as at 31 March 2017) | 130% | 86% |
| Upper limit for variable rate exposure (Actual is as at 31 March 2017) | 40% | 14% |
| Upper limit on sums invested for periods longer than 364 days (Actual is maximum in period) | £000<br>10,000 | £000<br>0 |
| Limits on fixed rate borrowing maturing in each period (LOBOs included based on call dates and not maturity dates) at 31 March 2017 | | |
| • Under 12 months | 45% | 0.3% |
| • 12 months and within 24 months | 45% | 7.2% |
| • 24 months and within 5 years | 45% | 20.8% |
| • 5 years and within 10 years | 45% | 10.4% |
| • 10 years and within 30 years | 45% | 6.1% |
| • 30 years and within 50 years | 45% | 27.6% |
| • 50 years and within 70 years | 45% | 27.6% |
| | | |
| Council Policy Limits<br>Maximum Percentage of Debt Repayable In Any Year (Actual is as at 31 March 2017) | 25% | 19.2% |
| Maximum Proportion of Debt At Variable Rates (Actual is as at 31 March 2017) | 45% | 30.2% |
| Maximum Percentage of Debt Restructured In Year (Actual is as at 31 March 2017) | 30% | 0.0% |
| | | |

The forecast Investment Balances for 2016/17 required under Investment Regulation 31 and the actual position at 31 March 2017 is shown in Appendix 2.

5.7 The forecast from the Treasury Advisers in the Strategy for the Bank Rate as at 31 March and the latest forecast are:

| | Forecast Per 2016/17 Strategy | Actual/Forecast At 17 May 2017 | |
|---|---|---|---|
| 2016/17 | 0.75% | 0.25% | (Actual) |
| 2017/18 | 1.25% | 0.25% | (Forecast) |
| 2018/19 | 1.75% | 0.25% | (Forecast) |
| 2019/20 | --- | 0.75% | (Forecast) |

5.8 The Council's Loans Fund Pool Rate for Interest 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 (excluding expenses) are as follows:

| Year | Loans Fund Pool Rate |
|---|---|
| 2012/13 | 3.811% |
| 2013/14 | 3.831% |
| 2014/15 | 3.934% |
| 2015/16 | 3.843% |
| 2016/17 | 3.659% |

It is expected that there will be a small increase in the Pool Rate in the medium term.

5.9 The Council's investment policy for the year is governed by Scottish Government Investment Regulations and was implemented in the annual investment strategy approved by the Council on 7 April 2016. 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.

All investments in 2016/17 and 2017/18 to date were in accordance with the policy and no institutions with which investments were made had any difficulty in repaying investments and interest in full.

5.10 The result of the investment strategy undertaken by the Council in 2016/17 is as follows:

| Average Investment | Rate of Return (gross of fees) | Benchmark Return (3 month LIBID uncompounded) |
|---|---|---|
| £44,142,601 | 0.720% | 0.315% |

The Council has outperformed the benchmark by 0.405% resulting in additional income to the Council of £178,800. It is expected that investment returns will continue to fall.

## 6.0 LOANS FUND ADVANCES

6.1 Where capital expenditure is funded by borrowing (referred to as loans fund advances), the debt financing costs are paid from the Revenue Budget as loan charges comprised of the repayments of debt along with interest and expenses costs on the borrowing. The following paragraphs in relation to loans fund advances are included to meet new requirements introduced from 2016/17 onwards and required to be included in the Treasury Strategy and also in this Annual Report on Treasury Management activity for 2016/17.

6.2 The Council is required to set out its policy for the repayment of loans fund advances.

For loans fund advances made before 1 April 2016 the policy will be to maintain the practice of previous years and use the Statutory Method (option 1) with annual principal repayments being calculated using the annuity method.

The same method is proposed for loans fund advances made after 1 April 2016 for the permitted 5 year transitional period. In applying the annuity method to new advances in any year, the interest rate used in the annuity calculation will be the Council's loans fund pool rate for the year (including expenses) as rounded up to the nearest 0.01%.

This policy was approved by the Full Council at its meeting on 6 April 2017.

6.3 The outstanding loans fund advances (representing capital expenditure still to be repaid from the Revenue Budget) are:

| | 2016/17 |
|---|---|
| | Actual |
| | £000 |
| Balance As At 1 April | 234,027 |
| Add: Advances For The Year | 18,364 |
| Less: Repayments For The Year | 10,587 |
| Balance As At 31 March | 241,804 |

6.4 For the loans fund advances outstanding as at 31 March 2017, the liability to make future repayments (excluding debt interest and expenses) is as follows:

| | £000 |
|---|---|
| Year 1 | 11,346 |
| Years 2-5 | 43,541 |
| Years 5-10 | 38,644 |
| Years 10-15 | 38,828 |
| Years 15-20 | 36,865 |
| Years 20-25 | 28,858 |
| Years 25-30 | 25,658 |
| Years 30-35 | 12,967 |
| Years 35-40 | 3,909 |
| Years 40-45 | 947 |
| Years 45-50 | 241 |
| TOTAL | 241,804 |

## 7.0 IMPLICATIONS

### Legal

7.1 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 £178,800. The Council utilises Treasury Management as part of the overall Financial Strategy. Officers will continue to investigate borrowing and investment opportunities to bring financial benefits to the Council, all within the Treasury Management Policy.

### Human Resources

7.2 None

**Equalities**

7.3 None

**Repopulation**

7.4 None

## 8.0 CONSULTATIONS

8.1 This report has been produced based on advice from the Council's treasury advisers (Capita Treasury Solutions Limited).

## 9.0 LIST OF BACKGROUND PAPERS

9.1 CIPFA - Treasury Management in the Public Services – Code of Practice and Cross-Sectoral Guidance Notes – 2011 Edition
Inverclyde Council – Treasury Management Strategy 2016/17.

**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.

Bail In
The use of funds held by a bank or other financial institution (whether in the form of customer bank deposits or bonds) to help prevent the collapse of a bank and in place of Governments stepping in with funds/support. The introduction of Bail In powers is part of the implementation of the Bank Recovery and Resolution Directive.

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 at regular meetings of the Monetary Policy Committee (“MPC”) of the Bank of England. This was previously referred to as the “Base Rate”.

Bank Recovery and Resolution Directive (BRRD)
The Bank Recovery and Resolution Directive is a European legislative requirement which sets out a common approach within the EU to how countries will deal with any banks and financial institutions that get into financial difficulty. It includes the use of Bail In powers and was implemented in the UK, Germany and Austria on 1 January 2015 and in most of the other EU countries in 2016.

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.

Capita
Capita Treasury Solutions Limited who are the Council’s treasury management advisers who were previously named Sector Treasury Services Limited (and were normally referred to as Sector).

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.

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 that sets interest rates for the Eurozone. It is the equivalent of the Bank of England.

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 19 countries: Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia, and Spain.

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).

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.

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”).

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 1 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.

Liquidity
In relation to investments, liquidity relates to the ability to access invested funds. If funds are in a call account they have high liquidity (because the funds are readily accessible) whilst if funds are invested in bonds the bonds would need to be sold in order to access the funds (lower liquidity).

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”. A LOBO loan allows the lender to propose adjustments to the loan interest rate at various call dates during the period of the loan (the “lender option”) but the borrower does not need to accept the adjustments and can instead redeem the loan (the “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 regularly during the year (in a meeting over 2 days) to set the Bank Rate for the UK.

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.

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
PWLB rates for new borrowing at a 0.20% discount to standard PWLB rates for local authorities that submit annual information on their long-term borrowing and capital spending plans. The PWLB Certainty Rates came 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.

Ring Fencing
In banking terms, the proposal (currently expected by 2019) that those parts of a bank that undertake riskier activities (such as investment banking) be kept legally separate from those parts that undertake less risky/safer activities (such as the accepting of customer deposits).

Security
In relation to investments, security refers to the likelihood that invested funds will be returned to the investor when due.

Stress Tests
Reviews of the assets and liabilities of banks and financial institutions carried out by regulators such as the European Banking Authority (EBA) and the Prudential Regulation Authority (PRA) in the UK to identify the impact of potential economic scenarios, assess the strength of those banks/financial institutions, and determine any action required by banks/financial institutions to strengthen their financial positions.

Treasury Management Code
This is the “Treasury Management in the Public Services: Code of Practice”. 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.

Finance Services, Inverclyde Council
May 2017.

**Appendix 2**

**FORECAST OF INVESTMENT BALANCES**
**ESTIMATE FOR 2016/17 AND ACTUAL AT 31 MARCH 2017**

Investment Regulation 31 requires the Council to provide forecasts for the level of investments. The estimate for 2016/17 and the actual as at 31 March 2017 are:

| | **2016/17** | **2016/17** |
|---|---|---|
| | **Estimate** | **Actual At 31 March 2017** |
| Cash balances managed in-house | | |
| - At 1 April 2016 | 50,124 | 51,529 |
| - At 31 March 2017 | 30,565 | 38,936 |
| - Change in year | (19,559) | (12,593) |
| - Average daily cash balances | 40,345 | 44,143 |
| Holdings of shares, bonds, units (includes local authority owned company) | | |
| - At 1 April 2016 | 2 | 2 |
| - Purchases | 0 | 0 |
| - Sales | 0 | 0 |
| - At 31 March 2017 | 2 | 2 |
| Loans to local authority company or other entity to deliver services | | |
| - At 1 April 2016 | 600 | 602 |
| - Advances | 0 | 0 |
| - Repayments | 35 | 38 |
| - At 31 March 2017 | 565 | 564 |
| Loans made to third parties | | |
| - At 1 April 2016 | 2,212 | 2,212 |
| - Advances | 3 | 15 |
| - Repayments | 28 | 48 |
| - At 31 March 2017 | 2,187 | 2,179 |
| Total of all investments | | |
| - At 1 April 2016 | 52,938 | 54,345 |
| - At 31 March 2017 | 33,319 | 41,681 |
| - Change in year | (19,619) | (12,664) |