Inverclyde council

**AGENDA ITEM NO. 5**

| | | | |
|---|---|---|---|
| **Report To:** | **Policy & Resources Committee** | **Date**: | **6 August 2019** |
| **Report By:** | **Chief Financial Officer** | **Report No:** | **FIN/67/19/AP/LA** |
| **Contact Officer:** | **Alan Puckrin** | **Contact No**: | **01475 712223** |
| **Subject:** | **TREASURY MANAGEMENT – ANNUAL REPORT 2018/19** | | |

## 1.0 PURPOSE

1.1 The purpose of this report is to advise the Committee of the operation of the treasury function and its activities for 2018/19 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 2019 the Council had gross external debt (including PPP) of £259,305,590 and investments of £18,915,222. This compares to gross external debt (including PPP) of £271,343,865 and investments of £33,395,618 at 31 March 2018.

2.2 The Council's Capital Financing Requirement at 31 March 2019 was £307,442,000. The gross external debt was £48,136,410 (15.7%) less than the Capital Financing Requirement meaning that the Council was in an underborrowed position (and remains so in 2019/20). This position is attributable to the level of cash-backed reserves held by the Council.

2.3 The Loans Fund Pool Rate for 2018/19 increased slightly due to a one-off additional write-off of existing premiums for prior-year debt rescheduling but remains at one of the lowest levels since at least Local Government reorganisation.

2.4 The average rate of return achieved on investments during 2018/19 was 0.838% which exceeds the benchmark return rate for the year of 0.675% by 0.163% and resulted in £46,000 of additional interest on investments for the Council.

2.5 In 2018/19 the Council restructured £3m of market debt following an offer from one of the LOBO loan lenders and paid an additional premium of £1.682m. The loan was at 5.55% but was refinanced by borrowing from the PWLB at 2.40%. The net effect of this restructuring is an annual saving in loan charges of around £30,000 per year for 44 years.

2.6 The Council 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.

2.7 There remains significant economic uncertainty in the UK and around the world, resulting in continuing volatility in the financial markets and uncertainty on UK interest rates. Given this position, the economic situation continues to be 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 2018/19, the ongoing work to seek to ensure the delivery of financial benefits for the Council during the current uncertainty and beyond, and that Officers are pursuing a review of loans fund repayment periods as part of the 2020-2023 budget.

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

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 2018/19.

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 section on Loan Fund Advances (section 7) 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.

## 5.0 ANNUAL REVIEW

5.1 The treasury management issues arising during the year were:

a. The Council's debt (including PPP) reduced during the year by £12.038m whilst Council investments reduced by £14.481m. These movements are largely due to the Council repaying maturing debt from investments.
b. The Council restructured £3m of its market loans during 2018/19. This followed an offer from one of the LOBO loan lenders under which the Council would pay the £3m plus a premium of £1.682m. The LOBO loan was at 5.55% and the Council funded the loan repayment by borrowing from the PWLB at 2.40%. The net effect of this restructuring is an annual saving in loan charges of around £30,000 per year for 44 years.
c. The Council remained within its Prudential Indicator and Treasury Management limits during 2018/19.
d. As at 31 March 2019 the Council had under borrowed against its capital financing requirement by £48.136m. The under borrowing will reduce due to anticipated borrowing in 2019/20.
e. In February 2018 the Treasury Consultants forecast that the Bank Rate would increase to 0.75% in the second quarter of 2018 and to 1.00% in the fourth quarter of 2018. The Bank Rate was, however, only increased once (in August 2018) to 0.75%. The amount of Quantitative Easing remained unchanged.
f. PWLB rates for new borrowing were expected to increase by between 0.20% and 0.40% but rates fell by 0.06% for long-term and up to 0.38% for short-term. These movements were not uniform during the year. Volatility resulted in the difference in rates for some loan periods between their highest and lowest levels during the year being 0.35% for some short-term loans but 0.60% to 0.70% for longer periods.
g. The interest rates for investments remained low during the year but were increased following (and largely in line with) the Bank Rate increase in August 2018.
h. The Council's investments earned a rate of return of 0.838% during the year and outperformed the benchmark return of 0.675% resulting in additional income to the Council of £46,000.
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 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 During 2018/19 and in 2019/20, there was and remains significant economic uncertainty in the UK and around the world which has resulted in volatility in the financial markets and uncertainty on UK interest rates.

Given this position, the economic 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 2018 | At 31 March 2019 |
|---|---|---|
| | £ | £ |
| Total Excluding PPP | 207,384,865 | 196,822,590 |
| PPP Debt | 63,959,000 | 62,483,000 |
| Total Including PPP | 271,343,865 | 259,305,590 |

Further detail is given in the following table:

| | At 31 March 2018 | | At 31 March 2019 | | Movement 2018/19 |
|---|---|---|---|---|---|
| | Principal | Rate | Principal | Rate | Principal |
| | £000 | | £000 | | £000 |
| Fixed Rate Funding: | | | | | |
| - PWLB | 104,714 | | 97,260 | | (7,454) |
| - Market * | 71,000 | | 56,000 | | (15,000) |
| | 175,714 | 4.04% | 153,260 | 3.94% | (22,454) |
| Variable Rate Funding: | | | | | |
| - PWLB | 0 | | 0 | | 0 |
| - Market * | 31,400 | | 43,400 | | 12,000 |
| - Temporary # | 271 | | 163 | | (108) |
| | 31,671 | 4.94% | 43,563 | 4.93% | 11,892 |
| Total Debt (Excl PPP) | 207,385 | 4.18% | 196,823 | 4.16% | (10,562) |
| PPP Debt | 63,959 | | 62,483 | | (1,476) |
| Total Debt (Incl PPP) | 271,344 | | 259,306 | | (12,038) |

* - 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 includes funds held by the Council on behalf of the Common Good and Trust Funds and that are to be treated as borrowing for Treasury Management purposes under Scottish Government requirements.

5.4 The Council's cash balances investment position was as follows:

| | At 31 March 2018 | | At 31 March 2019 | | Movement 2018/19 |
|---|---|---|---|---|---|
| | Principal | Return | Principal | Return | Principal |
| | £000 | | £000 | | £000 |
| Investments: | | | | | |
| - Fixed Term Deposits | 11,500 | 0.77% | 10,000 | 1.00% | (1,500) |
| - Notice Accounts | 15,000 | 0.70% | 0 | 0.60% | (15,000) |
| - Deposit Accounts | 6,896 | 0.50% | 8,915 | 0.75% | 2,019 |
| Totals | 33,396 | 0.68% | 18,915 | 0.88% | (14,481) |

Investments as at 31 March 2019: £18,915,222
Maximum level of investments in 2018/19: £42,390,119 on 18 July 2018
Minimum level of investments in 2018/19: £14,337,922 on 12 March 2019
Daily average for the year 2018/19: £28,232,802

5.5 2018/19 Outturn Compared to Estimates in 2018/19 Strategy

The 2018/19 outturn compared to the estimates in the 2018/19 strategy:

| | 2018/19 Estimate | 2018/19 Outturn |
|---|---|---|
| Borrowing Requirement | £000 | £000 |
| New borrowing | 0 | 0 |
| Alternative financing requirements # | 0 | (3,000) |
| Replacement borrowing # | 10,000 | 3,000 |
| TOTAL | 10,000 | 0 |
| Prudential/Treasury Management Indicators | £000 | £000 |
| Gross external debt including PPP (As at 31 March 2019) | 269,307 | 259,306 |
| Capital financing requirement (As at 31 March 2019) | 313,742 | 307,442 |
| (Under)/over borrowing against CFR | (44,435) | (48,136) |
| | £000 | £000 |
| Gross capital expenditure | 25,850 | 26,859 |
| Ratio of financing costs (including PPP) to net revenue stream | 14.26% | 14.73% |
| Ratio of net debt (debt and PPP less investments) to net revenue stream | 128.6% | 125.4% |

# - A £3,000,000 LOBO loan was repaid and refinanced from PWLB borrowing during the year.

5.6 The table in 5.5 above shows that the Council had under borrowed against its capital financing requirement by £48.136m. Under borrowing means that the Council is using cash it already has (e.g. in earmarked reserves and other balances) to cash flow capital expenditure (and maturing debt in 2018/19) rather than bringing in new funds from borrowing. The level of under borrowing is considered manageable but is kept under review in light of Council capital financing and other funding requirements.

5.7 2018/19 Outturn Compared to Limits in 2018/19 Strategy

The 2018/19 outturn compared to limits in the 2018/19 strategy:

| | 2018/19 Limits | | 2018/19 Outturn | |
|---|---|---|---|---|
| Prudential/Treasury Management Indicators | | | | |
| Authorised limit for external debt | £000 | | £000 | |
| • Borrowing | 250,000 | | 196,823 | |
| • Other long term liabilities | 64,000 | | 62,483 | |
| | 314,000 | | 259,306 | |
| Operational boundary for external debt | £000 | | £000 | |
| • Borrowing | 230,000 | | 196,823 | |
| • Other long term liabilities | 64,000 | | 62,483 | |
| | 294,000 | | 259,306 | |
| 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 and variable rate borrowing maturing in each period at 31 March 2019 (LOBOs included based on call dates and not maturity dates) | Fixed | Var. | Fixed | Var. |
| • Under 12 months | 45% | 35% | 7.7% | 22.1% |
| • 12 months and within 24 months | 45% | 35% | 10.7% | 0% |
| • 24 months and within 5 years | 45% | 35% | 12.8% | 0% |
| • 5 years and within 10 years | 45% | 35% | 0.7% | 0% |
| • 10 years and within 30 years | 45% | 35% | 3.9% | 0% |
| • 30 years and within 50 years | 45% | 35% | 21.8% | 0% |
| • 50 years and within 70 years | 45% | 35% | 20.3% | 0% |
| Council Policy Limits | | | | |
| Maximum Percentage of Debt Repayable In Any Year (Actual is as at 31 March 2019) | 25% | | 20.3% | |
| Maximum Proportion of Debt At Variable Rates (Actual is as at 31 March 2019) | 45% | | 22.1% | |
| Maximum Percentage of Debt Restructured In Year (Actual is as at 31 March 2019) | 30% | | 1.4% | |

The forecast Investment Balances for 2018/19 required for "investments" as defined in the Investment Regulations and the actual position at 31 March 2019 is shown in Appendix 2.

5.8 As advised in the 2018/19 strategy, the Prudential Code requires that the Council states how interest rate exposure is managed and monitored.

The position in 2018/19 was that all of the Council's PWLB debt was at fixed rates. The Market debt contained some debt at fixed rates, some small elements at variable rates and some where the rates could change (although none did). The Council's investments, which were all for less than 1 year, were all variable or regarded as variable under the treasury management rules.

During 2018/19, these interest rate exposures were managed and monitored by the Council through management reports on treasury management that were received and reviewed by the Chief Financial Officer.

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

| | Forecast Per 2018/19 Strategy | Actual/ Latest Forecast | |
|---|---|---|---|
| 2018/19 | 1.00% | 0.75% | (Actual) |
| 2019/20 | 1.25% | 0.75% | (Forecast) |
| 2020/21 | 1.50% | 1.25% | (Forecast) |
| 2021/22 | --- | 1.50% | (Forecast) |

5.10 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 |
|---|---|
| 2014/15 | 3.934% |
| 2015/16 | 3.843% |
| 2016/17 | 3.659% |
| 2017/18 | 3.557% |
| 2018/19 | 3.608% |

The Loans Fund Pool Rate for 2018/19 increased slightly due to a one-off additional write-off of existing premiums for prior-year debt rescheduling but remains at one of the lowest levels since Local Government reorganisation.

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

5.11 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 12 April 2018. 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 2018/19 and 2019/20 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.

5.12 The result of the investment strategy undertaken by the Council in 2018/19 is as follows:

| Average Investment | Rate of Return (gross of fees) | Benchmark Return (3 month LIBID uncompounded) |
|---|---|---|
| £28,232,802 | 0.838% | 0.675% |

The Council has outperformed the benchmark by 0.163% resulting in additional income to the Council of £46,000.

## 6.0 OTHER ISSUES

6.1 Banking Contract
The Council's previous contract with Bank of Scotland was for the period to 31 March 2019 and so tenders were issued during 2018/19. The Bank of Scotland was the successful bidder and the new contract covers the 5 year period from 1 April 2019 to 31 March 2024 with 3 one year optional extensions.

6.2 Treasury Consultants Contract
The Council's contract with its treasury consultants ended on 30 June 2019 and tenders have been issued for an initial 3 year period with 3 one year optional extensions.

## 7.0 LOANS FUND ADVANCES

7.1 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.

7.2 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 12 April 2018.

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

| | 2018/19 |
|---|---|
| | Actual |
| | £000 |
| Balance As At 1 April | 246,043 |
| Add: Advances For The Year | 10,165 |
| Less: Repayments For The Year | 11,738 |
| Balance As At 31 March | 244,470 |

7.4 For the loans fund advances outstanding as at 31 March 2019, the liability to make future repayments (excluding debt interest and expenses) is as follows:

| | £000 |
|---|---|
| Year 1 | 12,254 |
| Years 2-5 | 38,051 |
| Years 5-10 | 41,635 |
| Years 10-15 | 41,759 |
| Years 15-20 | 37,300 |
| Years 20-25 | 32,149 |
| Years 25-30 | 25,053 |
| Years 30-35 | 11,519 |
| Years 35-40 | 4,074 |
| Years 40-45 | 560 |
| Years 45-50 | 116 |
| TOTAL | 244,470 |

7.5 Clarification was recently received from Audit Scotland that permits the review of loans fund repayment periods where it is prudent to do so. This may generate medium term revenue savings. Officers will review the loans fund repayment periods as part of the forthcoming budget.

## 8.0 IMPLICATIONS

### Finance

8.1 Through the achievement of exceeding the investment benchmark return rate, the Council has benefited from additional returns of £46,000. 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.

### Legal

8.2 None. Any borrowing or lending is done under the Council's legal powers.

### Human Resources

8.3 There are no HR implications arising from this report.

### Equalities

8.4 There are no equalities implications arising from this report.

### Repopulation

8.5 There are no repopulation implications arising from this report.

## 9.0 CONSULTATIONS

9.1 This report has been produced based on advice from the Council's treasury consultants (Link Treasury Services Limited).

## 10.0 LIST OF BACKGROUND PAPERS

10.1 CIPFA - Treasury Management in the Public Services – Code of Practice and Cross-Sectoral Guidance Notes – 2017 Edition
Inverclyde Council – Treasury Management Strategy Statement and Annual Investment Strategy 2018/19-2021/22

**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.

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.

Link
Link Treasury Services Limited who are the Council's treasury management consultants who were previously named Capita Treasury Solutions Limited.

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").

MIFID II
The Markets in Financial Instruments Directive (MIFID II) is an EU Directive that came into force on 3 January 2018.

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.

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 December 2017.

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 December 2017.

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.

**Appendix 2**

**FORECAST OF INVESTMENT BALANCES**
**ESTIMATE FOR 2018/19 AND ACTUAL AT 31 MARCH 2019**

Investment Regulation 31 requires the Council to provide forecasts for the level of investments. The estimate for 2018/19 and the actual as at 31 March 2019 are:

| | 2018/19 | 2018/19 |
|---|---|---|
| | **Estimate** | **Actual At 31 March 2019** |
| | £000 | £000 |
| Cash balances managed in-house | | |
| - At 1 April 2018 | 40,000 | 33,396 |
| - At 31 March 2019 | 25,618 | 18,915 |
| - Change in year | (14,382) | (14,481) |
| - Average daily cash balances | 32,809 | 28,233 |
| Holdings of shares, bonds, units (includes local authority owned company) | | |
| - At 1 April 2018 | 2 | 2 |
| - Purchases | 0 | 0 |
| - Sales | 0 | 0 |
| - At 31 March 2019 | 2 | 2 |
| Loans to local authority company or other entity to deliver services | | |
| - At 1 April 2018 | 524 | 524 |
| - Advances | 0 | 0 |
| - Repayments | 41 | 41 |
| - At 31 March 2019 | 483 | 483 |
| Loans made to third parties | | |
| - At 1 April 2018 | 2,143 | 2,134 |
| - Advances | 0 | 28 |
| - Repayments | 23 | 23 |
| - At 31 March 2019 | 2,120 | 2,139 |
| Total of all investments | | |
| - At 1 April 2018 | 42,669 | 36,056 |
| - At 31 March 2019 | 28,223 | 21,539 |
| - Change in year | (14,446) | (14,517) |

The movements in the forecast investment balances shown above are due largely to ongoing treasury management activity in accordance with the Council's treasury management strategy or, for loans made to third parties, in accordance with Council decisions made in respect of such loans.

All of the Council's cash balances are managed in-house with no funds managed by external fund managers.

The "holdings of shares, bonds, units (includes authority owned company)" are historic and relate to the Common Good.

The Loans made to third parties includes a £50,000 loan to Shared Interest Society Limited ("Shared Interest") as approved by the Policy & Resources Committee in August 2017. Shared Interest are a company that uses funds invested by individuals and organisations to allow it to provide loans to fair trade businesses around the world.