Inverclyde
council

AGENDA ITEM NO. 12

Report To:	**The Inverclyde Council**	**Date: 4 October 2012**
Report By:	**Corporate Director Environment, Regeneration & Resources**	**Report No: SL/LA/886/12**
Contact Officer:	**Sharon Lang**	**Contact No: 01475 712112**
Subject:	**Treasury Management - Annual Report 2011/12: Remit from Policy & Resources Committee**	

1.0 PURPOSE

1.1 The purpose of this report is to request the Council to consider a remit from the Policy & Resources Committee.

2.0 SUMMARY

2.1 The Policy & Resources Committee at its meeting on 14 August 2012 considered the attached report by the Chief Financial Officer on the operation of the treasury function and its activities for 2011/12 as required under the terms of Treasury Management Practice 6 ('TMP6') on 'Reporting Requirements and Management Information Arrangements'. APPENDIX

2.2 The Committee decided:-
(1) that the contents of the Annual Report on Treasury Management for 2011/12 and the ongoing work to ensure the delivery of financial benefits for the Council be noted;
(2) that the annual report be remitted to the Council for approval; and
(3) that the exceeding of the Treasury Management Practices limited in May, July and August 2012 be homologated and that the limit be increased to £80m until the end of August 2012.

3.0 RECOMMENDATION

3.1 The Council is asked to approve the Treasury Management Annual Report 2011/12.

Sharon Lang
Legal & Democratic Services

Inverclyde council

APPENDIX
AGENDA ITEM NO. 12

Report To:	**Policy & Resources Committee**	**Date:**	**14 August 2012**
Report By:	**Chief Financial Officer**	**Report No:**	**FIN/52/12/AP/KJ**
Contact Officer:	**Alan Puckrin**	**Contact No:**	**01475 712223**

Subject: TREASURY MANAGEMENT – ANNUAL REPORT 2011/12

1.0 PURPOSE

1.1 The purpose of this report is to advise members of the operation of the treasury function and its activities for 2011/12 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 31st March 2012 the Council had debt of £194,640,228 and investments of £59,204,345.

2.2 The average rate of return achieved on investments during 2011/12 was 1.67% which exceeds the benchmark return rate for the year of 0.82% by 0.85% and resulting in £586,500 of additional interest on investments for the Council.

2.3 During 2011/12 the Council did not undertake any debt restructuring and operated within the treasury limits and Prudential Indicators set out in the Council’s Treasury Policy Statement, annual Treasury Strategy Statement, and the Treasury Management Practices. The exceptions to this related to exceeding the investment limits with the Council’s bankers on a number of occasions, all of which were reported to Committee during 2011/12.

2.4 In 2012/13 the Council have exceeded the Treasury Management Practices limit with the Bank of Scotland on 4 days.

3.0 RECOMMENDATIONS

3.1 It is recommended that the Committee notes the contents of the annual report on Treasury Management for 2011/12 and the ongoing work to ensure the delivery of financial benefits for the Council.

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

3.3 It is also recommended that the Committee homologates the exceeding of the Treasury Management Practices limit in May, July and August 2012 and to increase the limit to £77m until the end of August 2012, as explained in paragraph 4.12.

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 2011/12.

4.2 Annual Report for 2011/12

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 2012;
- performance measurement;
- the strategy for 2011/12;
- the wider economy and interest rates in 2011/12;
- the borrowing outturn for 2011/12;
- debt rescheduling;
- compliance with treasury limits and Prudential Indicators in 2011/12;
- investment strategy and outturn for 2011/12
- other issues.

Treasury Management is a complex area with its own terminology and acronyms. In order to aid the Committee's understanding a Glossary of Terms is attached as Appendix 1.

4.4 Treasury Position As At 31st March 2012

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

	31st March 2012		31st March 2011	
	Principal	Rate	Principal	Rate
	£000		£000	
Fixed Rate Funding:				
- PWLB	91,697		95,776	
- Market *	51,000		40,000	
	142,697	4.29%	135,776	4.12%
Variable Rate Funding:				
- PWLB	0		0	
- Market *	51,900		62,900	
- Temporary	43		31	
	51,943	4.79%	62,931	4.98%
Total Debt	**194,640**	**4.43%**	**198,707**	**4.39%**

* - 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 2010/11 and 2011/12, just the split between fixed and variable.

	31st March 2012		31st March 2011	
	Principal	Return	Principal	Return
	£000		£000	
Investments:				
- External	53,000	2.18%	55,000	1.81%
- Deposit Accounts	6,204	0.62%	13,261	0.60%
Total Investments	**59,204**	**2.02%**	**68,261**	**1.57%**

4.5 Performance Measurement

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	Comments
2007/08	6.274%	Stock Transfer took place in 2007/08
2008/09	4.608%	
2009/10	3.805%	
2010/11	4.300%	
2011/12	4.208%	

Members may also be interested to note that, as at 31st March 2012, the Council's average interest rate for borrowing with the PWLB was 4.10%, the third lowest of the mainland Scottish Councils. In addition, the Council's average debt life for PWLB debt at 31st March 2012 was 25.2 years against the Scottish Council average of 21.7 years giving the Council additional stability at these low rates. It is expected that the Council's PWLB borrowing rate will increase marginally over the next few years but remain well below 5.00% compared to the Scottish Council average at 31st March 2012 of 5.26%.

4.6 Strategy For 2011/12

The Council's borrowing strategy for 2011/12 was based on the following information:

- The Bank Rate was expected to increase in Quarter 2 to 0.75% and then in Quarter 4 of 2011 to 1.00%. PWLB rates for loans of less than 10 years duration were expected to increase during the year with no increases for loans for 10 years and above.
- Variable rate borrowing was expected to be cheaper than long term borrowing and therefore be attractive throughout the financial year compared to taking long term fixed rate borrowing.
- PWLB rates on loans of less than 10 years duration were expected to be lower than longer term PWLB rates offering a range of options for new borrowing which would spread debt maturities away from a concentration in long dated debt.
- There was expected to be little difference between 25 year and 50 year rates so loans in the 25-30 year periods could be seen as being more attractive than 50 year borrowing as the spread between the PWLB new borrowing and early repayment rates was considerably less. This would maximise the potential for debt rescheduling.

The strategy was to take account of the following suggested order of priority for borrowing:

- The cheapest borrowing was expected to be internal borrowing by running down cash balances and foregoing interest earned at historically low rates. However, in view of the overall forecast for long term borrowing rates to increase over the next few years, consideration was also be given to weighing the short term advantage of internal borrowing against potential long term costs if the opportunity were missed for taking loans at long term rates which were expected to be higher in future years.
- Temporary borrowing from the money markets or other local authorities.
- PWLB variable rate loans for up to 10 years.
- Short dated borrowing from non-PWLB sources.
- Long term fixed rate market loans at rates significantly below PWLB rates for the equivalent maturity period (where available) whilst seeking to maintain an appropriate balance between PWLB and market debt in the debt portfolio.
- PWLB borrowing for shorter periods where rates were expected to be significantly lower than rates for longer periods. This offered a range of options for new borrowing which would spread debt maturities away from a concentration in longer dated debt.

On the use of External Borrowing against using Internal Borrowing:

- The general aim of the treasury management strategy was to seek to reduce and then approximately maintain the difference between the Gross and Net debt levels over the following three years in order to reduce the credit risk incurred by holding investments whilst meeting liquidity requirements and retaining flexibility over funding requirements.
- It was expected that 2011/12 would see continued abnormally low Bank Rates, providing a continuation of the window of opportunity for local authorities to fundamentally review their strategy of undertaking new external borrowing.
- Over the following three years, investment rates were expected to continue to be below long term borrowing rates and so value for money considerations would indicate that value could best be obtained by avoiding new external borrowing and by using internal cash balances to finance new capital expenditure or to replace maturing external debt (this is referred to as internal borrowing). This would maximise short term savings*.*
- However, short term savings by avoiding new long term external borrowing in 2011/12 were also to be weighed against the potential for incurring additional long term extra costs by delaying unavoidable new external borrowing until later years when PWLB long term rates were forecast to be significantly higher.

Against this background, and with regard to the level of Council investments, caution was to be adopted with the 2011/12 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 2011/12</u>

In 2011/12 the financial markets were apprehensive, fearful of the potential of another Lehman Brothers-type financial crisis, prompted by a Greek Government debt default. At almost the last hour, the European Central Bank (ECB) calmed market concerns of a liquidity crisis among European Union (EU) banks by making available two huge three year credit lines, totalling close to €1 trillion, at 1%. This also provided a major incentive for those same banks to use this new liquidity to buy EU sovereign debt yielding considerably more than 1%.

A secondary benefit of this initiative was the bringing down of sovereign debt yields, for the likes of Italy and Spain, below unsustainable levels. The final aspects in the calming of the EU sovereign debt crisis were two eleventh hour agreements: one by the Greek Government of another major austerity package and the second, by private creditors, of a “haircut” (discount) on the value of Greek debt that they held, resulting in a major reduction in the total outstanding level of Greek debt. These agreements were a prerequisite for a second EU/IMF bailout package for Greece which was signed off in March 2012.

Despite this second bailout, major concerns remain that these measures were merely a postponement of the debt crisis, rather than a solution, as they did not address the problem of low growth and loss of competitiveness in not only Greece, but also in other EU countries with major debt imbalances. These problems may, in turn, also affect the financial strength of many already weakened EU banks during the expected economic downturn in the EU. There are also major questions as to whether the Greek Government will be able to deliver on its promises of cuts in expenditure and increasing tax collection rates, together with continued political uncertainty in the country.

The UK Government maintained its tight fiscal policy stance against a background of warnings from two credit rating agencies that the UK could lose its AAA credit rating. Key to retaining this rating will be a return to strong economic growth in order to reduce the national debt burden to a sustainable level, within the austerity plan timeframe. The USA and France lost their AAA credit ratings from one rating agency during the year (Standard & Poor’s).

UK growth proved mixed over the year. In Quarter 2, GDP growth was zero, but then Quarter 3 surprised with a return to robust growth of 0.6% before moving back into negative territory (-0.3%) in Quarter 4. The year finished with prospects for the UK economy being decidedly downbeat due to a return to negative growth in Quarter 4 in the EU (the UK’s largest trading partner) and a sharp increase in world oil prices caused by Middle East concerns. However, there was also a return of some economic optimism for growth outside the EU and supportive comments from the major western central banks: the US Federal Reserve may even be considering a third dose of quantitative easing (QE) to boost growth.

UK CPI inflation started the year at 4.5% and peaked at 5.2% in September. The dropping out of the January 2011 VAT increase from the annual CPI figure in January 2012 helped to bring inflation down to 3.6%, finishing at 3.5% in March. Inflation is forecast to be on a downward trend to below 2% over the next year.

The Monetary Policy Committee (MPC) agreed an increase in quantitative easing of £75bn in October on concerns of a downturn in growth and a forecast for inflation to fall below the 2% target. QE was targeted at further gilt purchases. The MPC then agreed another round of £50bn of QE in February 2012 to counter the negative impact of the EU debt and growth crisis on the UK.

Gilt yields fell for much of the year, until February, as concerns continued building over the EU debt crisis. This resulted in safe haven flows into UK gilts which, together with the two UK packages of QE during the year, combined to depress PWLB rates to historically low levels.

Bank Rate was unchanged at 0.50% throughout the year while expectations of when the first increase would occur were steadily pushed back until the second half of 2013 at the earliest. Deposit rates picked up in the second half of the year as competition for cash increased among banks.

4.8 Borrowing Outturn For 2011/12

The Council undertook no borrowing during 2011/12 and its debt actually fell, largely due to the repayment of a £4m PWLB loan on maturity.

4.9 Debt Rescheduling

Rescheduling Strategy – The Council's treasury consultants started 2011/12 with the expectation that longer-term PWLB rates would be on a rising trend during the year and that shorter term rates would be considerably cheaper. However, moving from long term to short term debt would mean taking on a greater risk exposure to having to re-borrow longer term in later years at considerably higher rates. Short term savings could be achieved by internally financing new capital expenditure and replacing maturing debt by running down existing cash balances which were only earning minimal rates of interest due to short term rates on investments being lower than rates paid on debt. Running down cash balances would also mean reduced counterparty risk on the investment portfolio.

Rescheduling Outturn For 2011/12 – The Council undertook no debt restructuring in 2011/12.

4.10 Compliance With Treasury Limits and Prudential Indicators in 2011/12

During the financial year the Council operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Policy Statement, annual Treasury Strategy Statement, and the Treasury Management Practices other than on a few occasions as reported to Committee in November 2011 and March 2012. The projected outturn for the Prudential Indicators (for which outturn figures are required) is shown in Appendix 2.

4.11 Investment Strategy and Outturn for 2011/12

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 14th April 2011. 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 3 of 2011 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 2011/12 Strategy	Actual/Latest Forecast	
2011/12	1.00%	0.50%	(Actual)
2012/13	2.25%	0.50%	(Forecast)
2013/14	3.25%	0.75%	(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.

Investment Rates and Outturn for 2011/12 – The tight monetary conditions following the 2008 financial crisis continued through 2011/12 with little material movement in the shorter term deposit rates. However, one month and longer rates rose significantly in the second half of the year as the Eurozone crisis grew. The ECB's actions to provide nearly €1 trillion of 1% 3 year finance to EU banks eased liquidity pressures in the EU and investment rates eased back somewhat in Quarter 1 of 2012. This action has also given EU banks time to strengthen their balance sheets and liquidity positions on a more permanent basis. The Bank Rate remained at its historic low of 0.50% throughout the year while market expectations of the imminence of the start of monetary tightening was gradually pushed further and further back during the year to the second half of 2013 at the earliest.

Overlaying the relatively poor investment returns were the continued counterparty concerns, most evident in the Eurozone sovereign debt crisis which resulted in a second rescue package for Greece in Quarter 1 of 2012. Concerns extended to the potential fallout on the European banking industry if the crisis could have ended with Greece leaving the Euro and defaulting.

The result of the investment strategy undertaken by the Council in 2011/12 is as follows:

Average Investment	Rate of Return (gross of fees)	Benchmark Return (3 month LIBID uncompounded)
£69,000,000	1.67%	0.82%

The Council have outperformed the benchmark by 0.85% resulting in additional income to the Council of £586,500.

No institutions in which investments were made had any difficulty in repaying investments and interest in full during the year.

4.12 <u>Counterparty Limit with Bank of Scotland - 2012/13</u>
The Counterparty Limit with the Bank of Scotland was exceeded on 14th to 17th May 2012. This was due to the level of funds being held at the Bank of Scotland pending further expenditure and pending an investment with RBS. The Committee is requested to homologate the exceeding of this Limit.
The Council have undertaken further borrowing during July 2012 to finance forthcoming capital expenditure. This borrowing, at historically low rates, has resulted in the Council exceeding its Counterparty Limit with the Bank of Scotland (from the Limit of £70m to a maximum of £77m) and it is expected that this will be the case until the end of August 2012. The Committee is therefore requested to homologate the exceeding of the Limit during July and August 2012 and to approve an increase in the Counterparty Limit with the Bank of Scotland to £77m until the end of August 2012.

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 £586,500. The Council utilises Treasury Management as part of the overall Financial Strategy and Officers will continue to investigate borrowing and investment opportunities to bring financial benefits to the Council, all within the Treasury Management Policy.

Human Resources: None.

Equalities: None.

6.0 CONSULTATIONS

6.1 This report has been produced based on advice from the Council's treasury advisers (Sector Treasury Services Limited).

7.0 LIST OF BACKGROUND PAPERS

7.1 CIPFA - Code of Practice on Treasury Management in the Public Services (Revised 2009)
Inverclyde Council – Treasury Management Strategy 2011/12.

Appendix 1

TREASURY MANAGEMENT GLOSSARY OF TERMS

Affordable Capital Expenditure Limit
The amount that the Council can afford to allocate to capital expenditure in accordance with the requirements of the Local Government in Scotland Act 2003 and supporting regulations.

Authorised Limit for External Debt
This is a limit for total Council external debt as set by the Council based on debt levels and plans.

Bank of England
The central bank for the UK with ultimate responsibility for setting interest rates (which it does through the Monetary Policy Committee or “MPC”).

Bank Rate
The interest rate for the UK as set each month by the Monetary Policy Committee (“MPC”) of the Bank of England. This was previously referred to as the “Base Rate”.

Capital Expenditure
Expenditure on or for the creation of fixed assets that meets the definition of Capital Expenditure under the accounting rules as set-out in the 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.

CDS Spread
A CDS Spread or “Credit Default Swap” Spread is the cost of insuring against default by a Counterparty. Increases in the CDS Spread for a Counterparty may indicate concerns within the market regarding a Counterparty.

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

CIPFA
CIPFA is the Chartered Institute of Public Finance and Accountancy who produce guidance, codes of practice, and policy documents for Councils.

Consumer Prices Index
The Consumer Prices Index (“CPI”) is a means of measuring inflation (as is the Retail Prices Index or “RPI”). The Monetary Policy Committee of the Bank of England set the Bank Rate in order to try to keep CPI at or close to the target set by the Government (currently the target is 2%). The calculation of the CPI includes many items of normal household expenditure but the calculation excludes some items such as mortgage interest payments and Council Tax.

Counterparty
Another organisation involved in a deal i.e. if the Council enters a deal with a bank then the bank would be referred to as the “Counterparty”.

Credit Ratings
Credit ratings are indicators produced by a ratings provider (such as Fitch, Moody's or Standard & Poor's) that aim to give an opinion on the relative ability of a financial institution to meet its financial commitments. Credit ratings are not guarantees – they are opinions based on investigations and assessments by the ratings providers and they are regularly reviewed and updated. The Council makes use of credit ratings to determine which counterparties are appropriate or suitable for the Council to make deposits with.

The highest credit rating is AAA.

European Central Bank
Sometimes referred to as "the ECB", the European Central Bank is the central bank for the Eurozone and is the equivalent of the Bank of England. The European Central Bank sets interest rates for the Eurozone.

Eurozone
This is the name given to the countries in Europe that have the Euro as their currency. Interest rates in the Eurozone are set by the European Central Bank. The Eurozone is comprised of the following 17 countries: Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia, and Spain.

Fed Rate
This is the interest rate for the US. Rates for the US are set by the Federal Reserve (the central bank for the US and the equivalent of the Bank of England).

Federal Reserve
Sometimes referred to as "the Fed", the Federal Reserve is the central bank for the US and is the equivalent of the Bank of England. The Federal Reserve sets interest rates for the US.

Fixed Rate Funding/Investments
This term refers to funding or investments where the interest rate that applies to payments or receipts of interest on the funding or investments is fixed and does not change.

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

Flat Yield Curve
A flat yield curve occurs where the yield for long-term investments is the same or similar to the yield for short-term investments – the period of the investment makes no or little difference to the yield on the investment.

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.

IMF
The International Monetary Fund oversees the world financial system and seeks to stabilise international exchange rates, facilitate development, and provide resources to countries in balance of payments difficulties or to assist with poverty reduction.

Incremental Impact of Capital Investment Decisions
These are Prudential Indicators that reflect the impact on Council Tax of movements in projected and estimated capital expenditure within and between financial years.

Inflation
Inflation is the term used for an increase in prices over time. It can be measured in various ways including using the Consumer Prices Index ("CPI") or the Retail Prices Index ("RPI").

Inverted Yield Curve
An inverted or negative yield curve shows long-term investments having lower yields than short-term investments (an investor gets a better yield by investing for a shorter period).

Investment Regulations
The Local Government in Scotland Act 2003 allows the Scottish Ministers to introduce Regulations to extend and govern the rules under which Scottish Councils may invest funds. The Local Government Investments (Scotland) Regulations 2010 came into effect on 1st April 2010.

LIBID
This is the London Interbank Bid Rate – an interest rate that is used between banks when they wish to attract deposits from each other.

LIBOR
This is the London Inter Bank Offering Rate – an interest rate that is used as a base for setting interest rates for deals between banks.

LOBO
This is a form of loan that the Council has with some lenders. The term is short for the phrase "Lender Option/Borrower Option".

Money Market Fund
A Money Market Fund (or MMF) is a highly regulated investment product into which funds can be invested. An MMF offers the highest possible credit rating (AAA) whilst offering instant access and the diversification of risk (due to the MMF's balances being investing in selected and regulated types of investment product with a range of different and appropriately credit-rated counterparties).

MPC
The MPC or Monetary Policy Committee is a committee of the Bank of England that meets each month (in a meeting over 2 days) to set the Bank Rate for the UK.

Negative Yield Curve
A negative or inverted yield curve shows long-term investments having lower yields than short-term investments (an investor gets a better yield by investing for a shorter period).

Net Borrowing Requirement
This is the difference between the Council's net external borrowing and its capital financing requirement. Under the Prudential Code the Council's net external borrowing should not, except in the short term, exceed its capital financing requirement. The Net Borrowing Requirement should therefore normally be a negative figure.

Operational Boundary
This is a level of debt set by the Council at lower than the Authorised Limit and which Council debt levels should not normally exceed during normal operations.

Positive Yield Curve
A positive yield curve shows long-term investments having higher yields than short-term investments (an investor gets a higher rate yield for investing for longer).

Prudential Code
Councils are required to comply with the CIPFA Prudential Code for Capital Finance in Local Authorities. These requirements include the production of Prudential Indicators. The Prudential Code was last revised in November 2011.

Prudential Indicators
Indicators set-out in the Prudential Code that will help Councils to meet requirements in relation to borrowing limits or which will help Councils demonstrate affordability and prudence with regard to their prudential capital expenditure.

PWLB
The Public Works Loan Board is a government agency and part of the Debt Management Office. The PWLB provides loans to local authorities and other specified bodies.

PWLB Rates
These are the interest rates chargeable by the Public Works Loan Board for loans. The rates for fixed rate loans are determined by the day on which the loan is agreed. The rates to be charged by the PWLB for loans are set each day based on gilt yields at the start of business each day and then updated at least once during the day.

Quantitative Easing
This is the creation of money by a central bank (such as the Bank of England) in order to purchase assets from banks and companies and boost the supply of money in an economy.

Ratings
Ratings are indicators produced by a ratings provider (such as Fitch, Moody's or Standard & Poor's) that aim to give an indication of the financial or operational strength of entities including financial institutions and even countries. Ratings are not guarantees – they are opinions based on investigations and assessments by the ratings providers and they are regularly reviewed and updated. The Council makes use of credit ratings to determine which counterparties are appropriate or suitable for the Council to make deposits with.

Repo Rate
This is another name for the Bank Rate as set by the Monetary Policy Committee.

Retail Prices Index
The Retail Prices Index (“RPI”) is a means of measuring inflation (as is the Consumer Prices Index or “CPI”). The calculation of the RPI includes most of the same items as the CPI as well as some items not included in the CPI such as mortgage interest payments and Council Tax whilst excluding items that are in the CPI such as charges for financial services.

Sector
Sector Treasury Services Limited who are the Council’s treasury management advisers.

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

Treasury Management Code
This is the “Treasury Management in the Public Services: Code of Practice” and is a code of practice for Council treasury management activities. It is produced by CIPFA and was last revised in November 2011.

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

Treasury Management Practices (TMPs)
This is a Council document that sets out Council policies and procedures for treasury management as required by the Treasury Management Code. The Council also agrees an annual treasury management strategy that is submitted to Committee in accordance with the Treasury Management Practices.

Variable Rate Funding/Investments
Funding or investments where the interest rate that applies to payments or receipts of interest on the funding or investments varies on an agreed basis.

Yield
The yield is the effective rate of return on an investment.

Yield Curve
A graph showing the yield on investments plotted against the maturity period for investments:

- A positive yield curve shows long-term investments having higher yields than short-term investments (an investor gets a higher rate yield for investing for longer).
- A negative or inverted yield curve shows long-term investments having lower yields than short-term investments (an investor gets a better yield by investing for a shorter period).
- A flat yield curve occurs where the yield for long-term investments is the same or similar to the yield for short-term investments – the period of the investment makes no or little difference to the yield on the investment.

Finance Services
Inverclyde Council
July 2012.

Appendix 2

PRUDENTIAL INDICATORS

	2010/11	2011/12
	Actual	**Actual**
Capital Expenditure (Indicator 5)	£000	£000
Non - HRA #	17,501	84,860
HRA ##	0	0
TOTAL	17,501	84,860
Ratio of financing costs to net revenue stream (Indicator 1)		
Non – HRA	9.10%	10.81%
HRA ##	0.00%	0.00%
Net borrowing requirement (Indicator 4)	£000	£000
As At 31 March	-57,027	-57,239
Capital Financing Requirement as at 31 March (Indicator 6)	£000	£000
Non - HRA #	206,735	271,948
HRA ##	0	0
TOTAL	206,735	271,948
	£000	£000
Upper limit for total principal sums invested for over 364 days (Indicator 14) ###	5,000	0

- The Indicator includes PPP schools, as required by the accounting rules. The increases between 2010/11 and 2011/12 are due to the new secondary schools becoming operational during 2011/12.
- The Council undertook Housing Stock Transfer during 2007/08.
- The investment in 2010/11 was for 365 days, was agreed on 9/6/2010, and was received in full on maturity on 9/6/2011.