Inverclyde council

AGENDA ITEM NO. 12

Report To:	**The Inverclyde Council**	**Date: 5 December 2013**
Report By:	**Acting Corporate Director Environment, Regeneration & Resources**	**Report No: RMcG/LA/1112/13**
Contact Officer:	**Rona McGhee**	**Contact No: 01475 712113**
Subject:	**Treasury Management - Mid-Year Review Report 2013/14 - 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 19 November 2013 considered the attached report by the Acting Corporate Director, Environment, Regeneration & Resources on the operation of the treasury function and its activities at the mid-year of 2013/14 in compliance with the CIPFA Code of Practice on Treasury Management. **APPENDIX**

2.2 The Committee decided:

(1) that the contents of the Mid-Year Review Report on Treasury Management for 2013/14 be noted; and

(2) that the Mid-Year Review Report be remitted to The Inverclyde Council for approval.

3.0 RECOMMENDATION

3.1 The Council is asked to approve the Treasury Management Mid-Year Review Report 2013/14.

Rona McGhee
Legal & Democratic Services

Inverclyde council

APPENDIX

AGENDA ITEM NO. 12

Report To:	**Policy & Resources Committee**	**Date:**	**19 November 2013**
Report By:	**Acting Corporate Director Environment, Regeneration & Resources**	**Report No:**	**FIN/86/13/JB/KJ**
Contact Officer:	**Jan Buchanan**	**Contact No:**	**01475 712225**
Subject:	**Treasury Management – Mid-Year Review Report 2013/14**		

1.0 PURPOSE

1.1 The purpose of this report is to advise members of the operation of the treasury function and its activities at the mid year of 2013/14 in compliance with the CIPFA Code of Practice on Treasury Management with which the Council complies.

2.0 SUMMARY

2.1 As at 30th September 2013 the Council had debt of £224,298,739 and investments of £61,858,238.

2.2 The average rate of return achieved on investments during the first half of 2013/14 was 1.56% which exceeds the benchmark return rate for the period of 0.38% by 1.18% largely due to the Council choosing to invest for longer periods than the benchmark of 3 months.

2.3 During the period the Council operated within the treasury limits and Prudential and Treasury Indicators set out in the Council's Treasury Policy Statement, annual Treasury Strategy Statement, Annual Investment Strategy and the Treasury Management Practices.

2.4 The economic situation and financial and banking markets remain uncertain and volatile, both globally and in the UK, but it is considered that the Treasury Management Strategy and Annual Investment strategy approved by the Council on 11th April 2013 are still appropriate.

3.0 RECOMMENDATIONS

3.1 It is recommended that the Committee notes the contents of the Mid-Year Review Report on Treasury Management for 2013/14.

3.2 It is recommended that the Mid-Year Review Report be remitted to the Council for approval.

Jan Buchanan
Head of Finance

4.0 BACKGROUND

4.1 The Chartered Institute of Public Finance and Accountancy's Code of Practice on Treasury Management 2011 has been adopted by this Council and the Council fully complies with its requirements. The primary requirements of the Code are:

1. The creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
2. The creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
3. The receipt by the Full Council of an annual Treasury Management Strategy Statement (including Annual Investment Strategy) for the year ahead, a Mid-Year Review Report, and an Annual Report (stewardship report) covering activities during the previous year.
4. The delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
5. The delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body which in this Council is the Policy & Resources Committee.

4.2 Treasury Management in this context is defined as: "The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

<u>Mid-Year Review Report for 2013/14</u>

4.3 The purpose of this report is to meet one of the above requirements of the CIPFA Code, namely the Mid-Year Review Report for the financial year 2013/14.

4.4 This mid-year review report covers:

- The Council's Treasury Position as at 30th September 2013
- An economic update of the first six months of 2013/14
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy
- A review of the Council's investment portfolio for 2013/14
- A review of the Council's borrowing strategy for 2013/14
- A review of any debt restructuring undertaken during 2013/14
- A review of compliance with Treasury, Prudential, and Council Policy Limits for 2013/14.

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

4.5 Treasury Position As At 30th September 2013

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

	30th September 2013		1st April 2013	
	Principal	Rate	Principal	Rate
	£000		£000	
Fixed Rate Funding:				
- PWLB	121,356		121,468	
- Market *	40,000		56,000	
	161,356	3.88%	177,468	3.97%
Variable Rate Funding:				
- PWLB	0		0	
- Market *	62,900		46,900	
- Temporary	43		43	
	62,943	4.98%	46,943	5.04%
Total Debt	**224,299**	**4.19%**	**224,411**	**4.19%**

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

	30th September 2013		1st April 2013	
	Principal	Return	Principal	Return
	£000		£000	
Investments:				
- External	42,500	0.97%	57,500	2.51%
- Deposit Accounts	19,358	0.66%	9,814	0.58%
Total Investments	**61,858**	**0.87%**	**67,314**	**2.23%**

In addition, the Council has items counting as investments under Scottish Government rules as at 30th September 2013 of £326,997 (down from £337,325 on 1st April 2013). Details are given in Appendix 2 and largely relate to loans to third parties.

4.6 Economic Update

The Council's Treasury Advisers (Sector Treasury Services) have provided the following economic update:

During 2013/14 economic indicators suggested that the economy is recovering, albeit from a low level. After avoiding recession in the first quarter of 2013, with a 0.3% quarterly expansion the economy grew 0.7% in quarter 2. There have been signs of renewed vigour in household spending in the summer, with a further pick-up in retail sales, mortgages, house prices and new car registrations.

The strengthening in economic growth appears to have supported the labour market, with employment rising at a modest pace and strong enough to reduce the level of unemployment further. Pay growth also rebounded strongly in April, though this was mostly driven by high earners delaying bonuses until after April's cut in the top rate of income tax. Excluding bonuses, earnings rose by just 1.0% year-on-year, well below the rate of inflation at 2.7% in August, causing continuing pressure on households' disposable income.

The Bank of England extended its Funding for Lending Scheme into 2015 and sharpened the incentives for banks to extend more business funding, particularly to small and medium size enterprises. To date, the mortgage market still appears to have been the biggest beneficiary from the scheme, with mortgage interest rates falling further to new lows. Together with the Government's Help to Buy scheme, which provides equity loans to credit-constrained borrowers, this is helping to boost demand in the housing market. Mortgage approvals by high street banks have risen as have house prices, although they are still well down from the boom years pre-2008.

Turning to the fiscal situation, the public borrowing figures continued to be distorted by a number of one-off factors. On an underlying basis, borrowing in quarter 2 started to come down, but only slowly, as Government expenditure cuts took effect and economic growth started to show through in a small increase in tax receipts. The 2013 Spending Review, covering only 2015/16, made no changes to the headline Government spending plan, and monetary policy was unchanged in advance of the new Bank of England Governor, Mark Carney, arriving. Bank Rate remained at 0.5% and quantitative easing stayed at £375bn. In August, the Monetary Policy Committee provided forward guidance that Bank Rate is unlikely to change until unemployment first falls to 7%, which was not expected until mid 2016. However, 7% is only a point at which the Monetary Policy Committee will review Bank Rate, not necessarily take action to change it. The average rate for the three months to July was 7.7%.

CPI inflation (with a Monetary Policy Committee target of 2.0%), fell marginally from a peak of 2.9% in June to 2.7% in August. The Bank of England expects inflation to fall back to 2.0% in 2015.

Financial markets sold off sharply following comments from the US Federal Reserve chairman in June that suggested that they may 'taper' their asset purchases earlier than anticipated. The resulting rise in US Treasury yields was replicated in the UK. Equity prices fell initially too, as Federal Reserve purchasing of bonds has served to underpin investor moves into equities out of low yielding bonds. However, as the market moves to realign its expectations, bond yields and equities are likely to rise further in expectation of a continuing economic recovery. Increases in payroll figures have shown further improvement, helping to pull the unemployment rate down from a high of 8.1% to 7.3%, and continuing house price rises have helped more households to escape from negative equity. In September, the Federal Reserve surprised financial markets by not starting tapering as it felt the run of economic data in recent months had been too weak to warrant taking early action. Bond yields fell sharply as a result, though it still only remains a matter of time until tapering does start.

Tensions in the Eurozone eased over the second quarter, but there remained a number of triggers for a renewed flare-up. Economic survey data improved consistently over the first half of the year, pointing to a return to growth in quarter 2, so ending six quarters of Eurozone recession.

4.7 Treasury Advisers' View of Next Six Months of 2013/14

Sector advise that:

Economic forecasting remains difficult with so many external influences weighing on the UK. Volatility in bond yields is likely during 2013/14 as investor fears and confidence ebb and flow between favouring more risky assets (i.e. equities) and safer bonds. Downside risks to UK gilt yields and PWLB rates include:

- A return to weak economic growth in the US, UK and China causing major disappointment to investor and market expectations.
- The potential for a significant increase in negative reactions of the people in Eurozone countries against austerity programmes, especially in countries with very high unemployment rates e.g. Greece and Spain, which face huge challenges in engineering economic growth to correct their budget deficits on a sustainable basis.
- The Italian political situation is frail and unstable.
- Problems in other Eurozone heavily indebted countries (e.g. Cyprus and Portugal) which could also generate safe haven flows into UK gilts.
- Monetary policy action failing to stimulate sustainable growth in economies such as the Eurozone and Japan.
- Weak growth or recession in the UK's main trading partners - the EU and US, depressing

economic recovery in the UK.
- Geopolitical risks e.g. Syria, Iran, North Korea, which could trigger safe haven flows back into bonds.

Upside risks to UK gilt yields and PWLB rates, especially for longer term PWLB rates include:-
- UK inflation being significantly higher than in the wider EU and US, causing an increase in the inflation premium built in to gilt yields.
- Increased investor confidence that sustainable robust world economic growth is firmly expected, together with a reduction or end of quantitative easing operations in the US, causing a further flow of funds out of bonds into equities.
- A reversal of Sterling's safe-haven status on a sustainable improvement in financial stresses in the Eurozone.
- In the longer term - a reversal of quantitative easing in the UK which could initially be implemented by allowing gilts held by the Bank to mature without reinvesting in new purchases, followed later by outright sale of gilts currently held.
- Further downgrading by credit rating agencies of the creditworthiness and credit rating of UK Government debt, consequent upon repeated failure to achieve fiscal correction targets and sustained recovery of economic growth, causing the ratio of total Government debt to GDP to rise to levels that provoke major concern.

The overall balance of risks to economic recovery in the UK is now weighted to the upside after five months of robust good news on the economy. However, only time will tell just how long this period of strong economic growth will last, and it remains exposed to vulnerabilities in a number of key areas. The longer run trend is for gilt yields and PWLB rates to rise, due to the high volume of gilt issuance in the UK, and of bond issuance in other major western countries. Near-term, there is some residual risk of further quantitative easing if there is a dip in strong growth or if the Monetary Policy Committee were to decide to take action to combat the market's expectations of an early first increase in Bank Rate. If the Monetary Policy Committee does takes action to do more quantitative easing in order to reverse the rapid increase in market rates, especially in gilt yields and interest rates up to 10 years, such action could cause gilt yields and PWLB rates over the next year or two to significantly undershoot the forecasts. The tension in the US over passing a Federal budget for the new financial year starting on 1st October and the continued uncertainty caused by raising the debt ceiling on a temporary basis only until early 2014 could also see bond yields temporarily dip until final agreement is reached between the opposing Republican and Democrat sides. Conversely, the eventual start of tapering by the Federal Reserve will cause bond yields to rise.

4.8 <u>Sector's Interest Rate Forecast</u>
The latest interest rate forecast produced by Sector is as follows:

	End Sept-13 Actual	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15
	%	%	%	%	%	%	%	%	%	%
BANK RATE	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
5yr PWLB	2.50	2.50	2.50	2.60	2.70	2.70	2.80	2.80	2.90	3.00
10yr PWLB	3.66	3.70	3.70	3.70	3.80	3.80	3.90	4.00	4.10	4.20
25yr PWLB	4.45	4.40	4.40	4.40	4.50	4.50	4.60	4.70	4.80	4.90
50yr PWLB	4.48	4.40	4.40	4.40	4.50	4.60	4.70	4.80	4.90	5.00

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

Sector advise that expectations for the first change in Bank Rate in the UK are now dependent on how to forecast when unemployment is likely to fall to 7%. Financial markets have taken a very contrary view to the Monetary Policy Committee and have aggressively raised short term interest rates and gilt yields due to their view that the strength of economic recovery is now so rapid that unemployment will fall much faster than the Bank of England forecasts. They therefore expect the first increase in Bank Rate to be in quarter 4 of 2014.

There is much latitude to disagree with this view as the economic downturn since 2008 was remarkable for the way in which unemployment did not rise to anywhere near the extent likely, unlike in previous recessions. This meant that labour was retained, productivity fell and now, as the Monetary Policy Committee expects, there is major potential for unemployment to fall only slowly as existing labour levels are worked more intensively and productivity rises back up again. The size of the work force is also expected to increase relatively rapidly and there are many currently self employed or part time employed workers who are seeking full time employment. Sector take the view that the unemployment rate is not likely to come down as quickly as the financial markets are currently expecting and that the Monetary Policy Committee view is more realistic. The prospects for any increase in Bank Rate before 2016 are therefore seen as being limited. However, some forecasters are forecasting that even the Bank of England forecast is too optimistic as to when the 7% level will be reached and so do not expect the first increase in Bank Rate until spring 2017.

4.9 Treasury Management Strategy Statement and Annual Investment Strategy Update

The Treasury Management Strategy Statement for 2013/14 was approved by the Council on 11th April 2013. The Council's Annual Investment Strategy, which is incorporated in the Treasury Management Strategy Statement, outlines the Council's investment priorities as follows:

- The security of capital.
- The liquidity of investments.

The Council will also aim to achieve the optimum return (yield) on investments commensurate with the proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term (maximum loan period of 12 months), and only invest with highly credit rated financial institutions, using Sector's suggested creditworthiness approach, including sovereign credit rating and credit default swap (CDS) overlay information provided by Sector.

A breakdown of the Council's investment portfolio is shown in Appendix 2.

For borrowing rates, the general trend has been an increase in interest rates during the first six months of 2013/14 across all maturity bands.

The Council have undertaken no borrowing so far this year to fund forthcoming capital expenditure. It is anticipated that borrowing will take place during this financial year in line with the approved Treasury Management Strategy.

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

As outlined above, the economic situation and financial and banking markets remain uncertain and volatile, both globally and in the UK. In this context, it is considered that the Treasury Management Strategy and Annual Investment Strategy approved by the Council on 11th April 2013 are still appropriate.

4.10 Investment Portfolio 2013/14

In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's low risk appetite. The investment portfolio yield for the first six months of the year compared to its benchmark is as follows:

Average Investment Over First Six Months Of 2013/14	Annualised Rate of Return (gross of fees)	Benchmark Return (3 Month LIBID uncompounded)
£64,000,000	1.56%	0.38%

The Council have outperformed the benchmark by 1.18% resulting in additional income to the Council in the period of £377,600 largely due to the Council undertaking investments for longer periods than the 3 month benchmark and with UK Nationalised/Part Nationalised Banks which are considered to be lower risk.

The level of Deposit Rates during the first 6 months of the year means that the Council will not achieve similar performance against the benchmark in future.

A full list of investments held as at 30th September 2013, compared to Sector's counterparty list and to the position at 1st April 2013, is shown in Appendix 2.

4.11 New External Borrowing

The Council's capital financing requirement (CFR) is, based on the latest capital programme, £12.4m for financial year 2013/14 and £25.6m for 2014/15 (excluding assets funded from PPP). The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions.

For borrowing rates, the general trend has been an increase in interest rates during the first six months of 2013/14 across all maturity bands.

The following table shows the movement in PWLB rates for the first six months of the year and provides benchmarking data showing high and low points etc:

PWLB Borrowing Rates 1st April – 30th September 2013					
	1 year	5 year	10 year	25 year	50 year
High	1.40%	2.80%	3.99%	4.68%	4.71%
Date	24/06/2013	11/09/2013	11/09/2013	11/09/2013	11/09/2013
Low	1.11%	1.70%	2.71%	3.91%	4.04%
Date	02/04/2013	08/04/2013	23/04/2013	08/04/2013	08/04/2013
Average	1.25%	2.21%	3.34%	4.34%	4.43%
Spread between High and Low	0.29%	1.10%	1.28%	0.77%	0.67%
01/04/2013	1.11%	1.74%	2.83%	4.07%	4.22%
30/09/2013	1.30%	2.50%	3.66%	4.45%	4.48%
Spread between 01/04/2013 and 30/09/2013	0.19%	0.76%	0.83%	0.38%	0.26%

The Council has not borrowed in advance of need in 2013/14 and has no intention of doing so.

4.12 Debt Rescheduling

No debt rescheduling was undertaken during the first six months of 2013/14.

4.13 Compliance with Treasury, Prudential and Council Policy Limits

It is a statutory duty for the Council to determine and keep under review the "Affordable Capital Expenditure Limits". The Council's approved Treasury and Prudential Indicators (affordability limits) are outlined in the approved Treasury Management Strategy Statement.

During the financial year to date the Council has operated within the treasury limits and Treasury and Prudential Indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices.

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

4.14 Performance Measurement 2012/13

Appendix 4 shows the outturn for Prudential Indicators for 2011/12 and 2012/13 along with the Loans Fund Pool Rate for Interest for the last five years. These figures reflect the final position following the completion and audit of the Council's Annual Accounts.

With effect from 2013/14 the Council is required to compare its Gross External Debt to its Capital Financing Requirement ("CFR") (as included in Appendix 3). The year-end position for 2011/12 and 2012/13 is shown in Appendix 4 and shows that, for 2012/13, the Gross External Debt was £1.309m (0.4%) over the CFR at 31 March 2013 and was £1.571m (0.6%) under the CFR at 31 March 2012. The 2012/13 position is not a cause for concern and does not mean that the Council have breached the Prudential Code, any formal limits or any Prudential Indicators. It arose due to the Council having borrowed during the year to fund its estimated capital expenditure for the year but some of that estimated expenditure was later rephased to 2013/14 (as advised in reports on the Capital Programme).

4.15 Other Issues

The Council's contract with its treasury advisers runs until 30th June 2014 with the option for a further one year extension until 30th June 2015.

5.0 IMPLICATIONS

5.1 Legal: None. Any borrowing or lending is done under the Council's legal powers.

Finance: Through the achievement of exceeding the investment benchmark return rate, the Council has benefited from additional returns of £377,600. 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).

7.0 LIST OF BACKGROUND PAPERS

7.1 CIPFA - Code of Practice on Treasury Management in the Public Services (Revised 2011)
Scottish Government – Finance Circular 5/2010 – The Investment of Money By Scottish Local Authorities
Inverclyde Council – Treasury Management Strategy and Annual Investment Strategy 2013/14-2015/16.

TREASURY MANAGEMENT GLOSSARY OF TERMS

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

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

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

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

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

Capital Expenditure
Expenditure on or for the creation of fixed assets that meets the definition of Capital Expenditure under the accounting rules as set-out in the Code of Practice on Local Authority Accounting in the United Kingdom and for which the Council are able to borrow.

Capital Financing Requirement
The Capital Financing Requirement (sometimes referred to as the “CFR”) is a Prudential Indicator that can be derived from the information in the Council’s Balance Sheet. It generally represents the underlying need to borrow for capital expenditure.

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

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

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

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

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

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

The highest credit rating is AAA.

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

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

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

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

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

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

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

G7/G8/G20
These are forums for discussions by the governments of large world economies.

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

Gilt Yields
A gilt yield is the effective rate of return that someone buying a gilt at the current market price will receive on that gilt. Since the market price of a gilt can vary at any time, the yield will also vary.

Gilts
Gilts are bonds (i.e. debt certificates) that are issued (i.e. sold) by the UK Government. When they issue gilts the Government sets the interest rate that applies to the gilt, sets when they will repay the value of the gilt, and it agrees to make interest payments at regular intervals until the gilt is repaid or redeemed. Gilts are traded in the financial markets with the price varying depending on the interest rate applicable to the gilt, when the gilt will be repaid (i.e. when it will mature), on Bank Rate expectations, and on market conditions.

Gross Domestic Product
Gross Domestic Product ("GDP") is a measure of the output of goods and services from an economy.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Sector
Sector Treasury Services Limited who are the Council’s treasury management advisers and who use Capita Asset Services as a trading name.

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

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

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

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

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

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

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

Finance Services
Inverclyde Council
October 2013.

Appendix 2

INVESTMENT PORTFOLIO

This Appendix shows the Council's Investment Portfolio as at 1st April 2013 and as at 30th September 2013. The Portfolio includes items included as Other Investments under the latest guidance on such matters.

Investments As At 1st April 2013					
	Sector Colour Category And Maximum Investment Period	Annual Rate	Amount	Deposit Type	Maturity Date
Investments			£		
Bank of Scotland	BLUE - 12 Months	2.65%	5,000,000	Fixed Term	15-Apr-13
Bank of Scotland	BLUE - 12 Months	2.65%	5,000,000	Fixed Term	13-May-13
RBS	BLUE - 12 Months	2.25%	10,000,000	Fixed Term	22-May-13
Bank of Scotland	BLUE - 12 Months	2.85%	5,000,000	Fixed Term	06-Jun-13
Bank of Scotland	BLUE - 12 Months	3.00%	7,500,000	Fixed Term	04-Jul-13
Bank of Scotland	BLUE - 12 Months	2.85%	5,000,000	Fixed Term	08-Jul-13
Bank of Scotland	BLUE - 12 Months	2.85%	5,000,000	Fixed Term	12-Aug-13
RBS	BLUE - 12 Months	2.25%	5,000,000	Fixed Term	21-Aug-13
Bank of Scotland	BLUE - 12 Months	2.70%	5,000,000	Fixed Term	11-Sep-13
Bank of Scotland	BLUE - 12 Months	1.10%	5,000,000	Fixed Term	07-Jan-14
			57,500,000		
Deposit Accounts					
Bank of Scotland	BLUE - 12 Months	0.50%	7,308,360	Call	---
Santander UK	NO COLOUR - No New Deals	0.80%	2,451,936	Call	---
Santander UK	NO COLOUR - No New Deals	0.70%	53,709	30-Day Notice	---
			9,814,005		
Other Investments					
Holdings of Shares, Bonds, and Units	---	---	2,000	War Stock	---
Loans Made To Third Parties	---	---	335,325	---	---
Investment Properties	---	---	0	---	---
			337,325		
TOTAL			**67,651,330**		

Investments As At 30th September 2013					
	Sector Colour Category And Maximum Investment Period	Annual Rate	Amount	Deposit Type	Maturity Date
Investments			£		
Bank of Scotland	BLUE - 12 Months	1.10%	5,000,000	Fixed Term	07-Jan-14
Bank of Scotland	BLUE - 12 Months	1.05%	5,000,000	Fixed Term	06-May-14
Bank of Scotland	BLUE - 12 Months	1.05%	5,000,000	Fixed Term	22-May-14
Bank of Scotland	BLUE - 12 Months	1.05%	5,000,000	Fixed Term	05-Jun-14
Bank of Scotland	BLUE - 12 Months	1.01%	5,000,000	Fixed Term	02-Jul-14
Bank of Scotland	BLUE - 12 Months	1.01%	7,500,000	Fixed Term	08-Jul-14
Bank of Scotland	BLUE - 12 Months	0.75%	5,000,000	Fixed Term	12-Feb-14
Bank of Scotland	BLUE - 12 Months	0.75%	5,000,000	Fixed Term	21-Feb-14
			42,500,000		
Deposit Accounts					
Bank of Scotland	BLUE - 12 Months	0.50%	9,304,150	Call	---
RBS	BLUE - 12 Months	0.50%	189	Call	---
Santander UK	GREEN - 3 Months	0.80%	10,000,000	Call	---
Santander UK	GREEN - 3 Months	0.70%	53,899	30-Day Notice	---
			19,358,238		
Other Investments					
Holdings of Shares, Bonds, and Units	---	---	2,000	War Stock	---
Loans Made To Third Parties	---	---	324,997	---	---
Investment Properties	---	---	0	---	---
			326,997		
TOTAL			**62,185,235**		

Appendix 3

PRUDENTIAL/TREASURY INDICATORS AND COUNCIL POLICY LIMITS

Prudential and Treasury Indicators				
	Estimate For 2013/14	Actual For 2013/14 To 30/9/2013	Within Limits	
	£million	£million		
PI 7 - Authorised Limit for External Debt (Excl PPP)	266.000	224.299	Yes	
PI 8 - Operational Limit for External Debt (Excl PPP)	258.800	224.299	Yes	
PI 10 - Compliance with CIPFA code			Yes	
	%	%		
PI 11 - Upper limit on fixed interest rate exposure	150.000%	99.332%	Yes	
PI 12 - Upper limit on variable interest rate exposure	40.000%	0.668%	Yes	
PI 13 Borrowing fixed rate maturing in each period (LOBOs included based on call dates rather than maturity dates)	Upper	Lower	Actual	Within Limits
Under 12 months	40%	0%	2.595%	Yes
1 - 2 years	40%	0%	3.592%	Yes
2 - 5 years	40%	0%	28.944%	Yes
5 - 10 years	40%	0%	29.906%	Yes
10 - 30 years	40%	0%	10.173%	Yes
30 - 50 years	40%	0%	24.790%	Yes
50 - 70 years	40%	0%	0.000%	Yes
TOTAL			100.000%	
	Limit For 2013/14 £	Maximum In Period £	Within Limit	Comment
PI 14 - Upper limit on sums invested for periods longer than 364 days	10,000,000	0	Yes	---
	CFR At 30/9/2013	Gross External Debt At 30/9/2013	Gross External Debt Below CFR?	
	£million	£million		
Gross External Debt Compared To Capital Financing Requirement (Excl PPP)	230.323	224.299	Yes	
Council Policy Limits				
	Limit per Council Policy	Actual As At 30/9/2013	Within Limits	
Maximum proportion of borrowing at variable interest rates	40%	28.062%	Yes	
Maximum proportion of debt restructuring in any one year	30%	0.000%	Yes	
Maximum proportion of debt repayable in any one year	25%	17.833%	Yes	

Appendix 4

PRUDENTIAL INDICATORS AND LOANS FUND POOL RATE FOR INTEREST

PRUDENTIAL INDICATORS	2011/12	2012/13
	Actual	**Actual**
Capital Expenditure (Indicator 5)	£000	£000
Non – HRA (Including PPP)	84,860	48,578
Ratio of financing costs to net revenue stream (Indicator 1)		
Non – HRA (Including PPP)	10.77%	10.93%
Net borrowing requirement (Indicator 4)	£000	£000
As At 31 March	-57,092	-66,005
Capital Financing Requirement as at 31 March (Indicator 6)	£000	£000
Non – HRA (Including PPP)	271,815	296,906
Upper limit for total principal sums invested for over 364 days (Indicator 14)	£0	£0
Gross External Debt compared to Capital Financing Requirement at Year-End	£000	£000
Capital Financing Requirement	271,815	296,906
Gross External Debt	270,244	298,215
Under/(Over) Against Capital Financing Requirement	1,571	(1,309)

LOANS FUND POOL RATE FOR INTEREST		
Year	Interest Rate	
2008/09	4.608%	
2009/10	3.805%	
2010/11	4.300%	
2011/12	4.208%	
2012/13	3.811%	