Inverclyde council

AGENDA ITEM NO: 16

Report To:	**The Inverclyde Council**	**Date:**	**4 December 2014**
Report By:	**Corporate Director Environment, Regeneration & Resources**	**Report No:**	**SL/LP/086/14**
Contact Officer:	**Sharon Lang**	**Contact No:**	**01475 712112**
Subject:	**Treasury Management – Mid-Year Review Report 2014/15 – 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 18 November 2014 considered the attached report by the Chief Financial Officer on the operation of the treasury function and its activities at the mid-year of 2014/15 in compliance with the CIPFA Code of Practice on Treasury Management with which the Council complies.

2.2 The Committee decided:

(1) that the contents of the Mid-Year Review Report on Treasury Management for 2014/15 be noted;
(2) that the Mid-Year Review Report be remitted to the Inverclyde Council for approval; and
(3) that approval be given to procuring treasury advisers' services on the basis of a contract for 3 years with the option of a further 1 year extension with procurement by negotiation with the current provider, Capita Treasury Solutions Limited, subject to the approval of the Chief Financial Officer and the Head of Legal & Property Services and the annual cost not to exceed £22,000 per year.

3.0 RECOMMENDATION

3.1 The Council is asked to approve the Treasury Management Mid-Year Review Report 2014/15

Gerard Malone
Head of Legal & Property Services

Inverclyde council

APPENDIX
AGENDA ITEM NO. 16

Report To:	**Policy & Resources Committee**	**Date:**	**18 November 2014**
Report By:	**Chief Financial Officer**	**Report No:**	**FIN/65/14/KJ/JB**
Contact Officer:	**Jan Buchanan**	**Contact No:**	**01475 712223**
Subject:	**Treasury Management – Mid-Year Review Report 2014/15**		

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 2014/15 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 2014 the Council had debt of £219,693,321 and investments of £51,931,095.

2.2 The average rate of return achieved on investments during the first half of 2014/15 was 0.76% which exceeds the benchmark return rate for the period of 0.42% by 0.34% 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 other than as previously homologated by the Committee.

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 the Annual Investment Strategy approved by the Council on 10th April 2014 are still appropriate.

2.5 The Council's current contract with its treasury advisers runs until 30th June 2015 so approval is being sought to procure advisers' services beyond this date.

3.0 RECOMMENDATIONS

3.1 It is recommended that the Committee notes the contents of the Mid-Year Review Report on Treasury Management for 2014/15.

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

3.3 It is recommended that approval be given to procuring treasury advisers' services on the basis of a contract for 3 years with the option of a further 1 year extension with procurement by negotiation with the current provider (Capita Treasury Solutions Limited) subject to the approval of the Chief Financial Officer and the Head of Legal & Property Services and the annual cost not to exceed £22,000 per year.

Alan Puckrin
Chief Financial Officer

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."

Mid-Year Review Report for 2014/15

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 2014/15.

4.4 This mid-year review report covers:

- The Council's Treasury Position as at 30th September 2014
- An economic update of the first six months of 2014/15
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy
- A review of the Council's investment portfolio for 2014/15
- A review of the Council's borrowing strategy for 2014/15
- A review of any debt restructuring undertaken during 2014/15
- A review of compliance with Treasury, Prudential, and Council Policy Limits for 2014/15.

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 2014

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

	30th September 2014		1st April 2014	
	Principal	Rate	Principal	Rate
	£000		£000	
Fixed Rate Funding:				
- PWLB	116,750		117,168	
- Market *	55,000		55,000	
	171,750	3.98%	172,168	3.99%
Variable Rate Funding:				
- PWLB	0		0	
- Market *	47,900		47,900	
- Temporary	43		43	
	47,943	4.97%	47,943	4.97%
Total Debt	**219,693**	**4.19%**	**220,111**	**4.21%**

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

	30th September 2014		1st April 2014	
	Principal	Return	Principal	Return
	£000		£000	
Investments:				
- External	42,500	0.86%	32,500	1.02%
- Deposit Accounts	9,431	0.50%	15,609	0.50%
Total Investments	**51,931**	**0.80%**	**48,109**	**0.85%**

In addition, the Council has items counting as investments under Scottish Government rules as at 30th September 2014 of £268,330 (down from £291,864 on 1st April 2014). Details are given in Appendix 2 and largely relate to loans to third parties.

4.6 Economic Update

The Council's Treasury Advisers (Capita Treasury Solutions Limited) have provided the following economic update:

UK

After strong UK GDP quarterly growth of 0.7%, 0.8% and 0.7% in quarters 2, 3 and 4 respectively in 2013, (2013 annual rate 2.7%), and 0.7% in quarter 1 and 0.9% in quarter 2 of 2014 (annual rate 3.2% in quarter 2), it appears very likely that strong growth will continue through 2014 and into 2015 as forward surveys for the services and construction sectors are very encouraging and business investment is also strongly recovering. The manufacturing sector has also been encouraging though the latest figures indicate a weakening in the future trend rate of growth. However, for this recovery to become more balanced and sustainable in the longer term, the recovery needs to move away from dependence on consumer expenditure and the housing market to exporting, and particularly of manufactured goods, both of which need to substantially improve on their recent lacklustre performance. This overall strong growth has resulted in unemployment falling much faster through the initial threshold of 7%, set by the Monetary Policy Committee (MPC) in August 2013, before it said it would consider any increases in the Bank Rate. The MPC has, therefore, subsequently broadened its forward guidance by adopting five qualitative principles and looking at a much wider range of about eighteen indicators in order to form a view on how much slack there is in the economy and how quickly slack is being used up.

The MPC is particularly concerned that the current squeeze on the disposable incomes of consumers should be reversed by wage inflation rising back above the level of inflation in order to ensure that the recovery will be sustainable. There also needs to be a major improvement in labour productivity, which has languished at dismal levels since 2008, to support increases in pay rates. Most economic forecasters are expecting growth to peak in 2014 and then to ease off a little, though still remaining strong, in 2015 and 2016. Unemployment is therefore expected to keep on its downward trend and this is likely to eventually feed through into a return to significant increases in pay rates at some point during the next three years. However, just how much those future increases in pay rates will counteract the depressive effect of increases in the Bank Rate on consumer confidence, the rate of growth in consumer expenditure and the buoyancy of the housing market, are areas that will need to be kept under regular review.

Also encouraging has been the sharp fall in CPI inflation, reaching 1.5% in May and July, the lowest rate since 2009. Forward indications are that inflation is likely to fall further in 2014 to possibly near to 1%. Overall, markets are expecting that the MPC will be cautious in raising the Bank Rate as it will want to protect heavily indebted consumers from too early an increase in the Bank Rate at a time when inflationary pressures are also weak. A first increase in Bank Rate is therefore expected in quarter 1 or quarter 2 of 2015 with increases after that expected to be at a slow pace to lower levels than prevailed before 2008 as increases in the Bank Rate will have a much bigger effect on heavily indebted consumers than they did before 2008.

The return to strong growth has also helped lower forecasts for the increase in Government debt by £73bn over the next five years, as announced in the 2013 Autumn Statement, and by an additional £24bn, as announced in the March 2014 Budget - which also forecast a return to a significant budget surplus (of £5bn) in 2018/19. However, monthly public sector deficit figures have disappointed so far in 2014/15.

US

In September 2014, the Federal Reserve continued with its monthly $10bn reductions in asset purchases, which started in December 2013. Asset purchases have now fallen from $85bn to $15bn and are expected to stop in October 2014, providing strong economic growth continues. First quarter GDP figures for the US were depressed by exceptionally bad winter weather, but growth rebounded very strongly in quarter 2 to 4.6% (annualised).

The US faces similar debt problems to those of the UK but, thanks to reasonable growth, cuts in government expenditure and tax rises, the annual government deficit has been halved from its peak without appearing to do too much damage to growth, although the weak labour force participation rate remains a matter of key concern for the Federal Reserve when considering the amount of slack in the economy and monetary policy decisions.

Eurozone

The Eurozone is facing an increasing threat from weak or negative growth and from deflation. In September 2014, the inflation rate fell further, to reach a low of 0.3%. However, this is an average for all Eurozone countries and includes some countries with negative rates of inflation. Accordingly, the European Central Bank took some rather limited action in June to loosen monetary policy in order to promote growth. In September it took further action to cut its benchmark rate to only 0.05%, its deposit rate to -0.2% and to start a programme of purchases of corporate debt. However, it has not embarked yet on full quantitative easing (purchase of sovereign debt).

Concern in financial markets for the Eurozone subsided considerably during 2013. However, sovereign debt difficulties have not gone away and major issues could return in respect of any countries that do not dynamically address fundamental issues of low growth, international uncompetitiveness and the need for overdue reforms of the economy, (as Ireland has done). It is, therefore, possible over the next few years that levels of government debt to GDP ratios could continue to rise for some countries. This could mean that sovereign debt concerns have not disappeared but, rather, have only been postponed.

China and Japan

Japan is causing considerable concern as an increase in sales tax in April has suppressed consumer expenditure and growth. In quarter 2 growth was -1.8% quarter-on-quarter and -7.1% over the previous year. The Government is hoping that this is a temporary blip.

As for China, Government action in 2014 to stimulate the economy appeared to be putting the target of 7.5% growth within achievable reach but recent data has raised fresh concerns. There are also major concerns as to the creditworthiness of much bank lending to corporates and local government during the post 2008 credit expansion period and whether the bursting of a bubble in housing prices is drawing nearer.

4.7 Treasury Advisers' View of Next Six Months of 2014/15

Capita advise that:

They undertook a review of their interest rate forecasts in mid-August, after the Bank of England's Inflation Report. By the beginning of September, a further rise in geopolitical concerns, principally over Ukraine but also over the Middle East, had caused a further flight into safe havens like gilts and depressed PWLB rates further. However, there is much volatility in rates as news ebbs and flows in negative or positive ways. Their latest forecast includes a first increase in Bank Rate in quarter 1 of 2015.

Their PWLB forecasts are based around a balance of risks. However, there are potential upside risks, especially for longer term PWLB rates, as follows: -

- A further surge in investor confidence that robust world economic growth is firmly expected, causing a flow of funds out of bonds and into equities.
- UK inflation being significantly higher than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.

Downside risks currently include:

- The situation over Ukraine poses a major threat to Eurozone and world growth if it was to deteriorate into economic warfare between the West and Russia where Russia resorted to using its control over gas supplies to Europe.
- UK strong economic growth is currently dependent on consumer spending and the unsustainable boom in the housing market. The boost from these sources is likely to fade after 2014.
- A weak rebalancing of UK growth to exporting and business investment causing a weakening of overall economic growth beyond 2014.
- Weak growth or recession in the UK's main trading partners - the EU and US, inhibiting economic recovery in the UK.
- A return to weak economic growth in the US, UK and China causing major disappointment in investor and market expectations.
- A resurgence of the Eurozone sovereign debt crisis caused by ongoing deterioration in government debt to GDP ratios to the point where financial markets lose confidence in the financial viability of one or more countries and in the ability of the European Central Bank and Eurozone governments to deal with the potential size of the crisis.
- Recapitalising of European banks requiring more government financial support.
- Lack of support by populaces in Eurozone countries for 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.
- Italy: the political situation has improved but it remains to be seen whether the new government is able to deliver the austerity programme required and a programme of overdue reforms. Italy has the third highest government debt mountain in the world.
- France: after being elected on an anti-austerity platform, President Hollande has embraced a €50bn programme of public sector cuts over the next three years. However, there could be major obstacles in implementing this programme. Major overdue reforms of employment practices and an increase in competiveness are also urgently required to lift the economy out of stagnation.

- Monetary policy action failing to stimulate sustainable growth in western economies, especially the Eurozone and Japan.
- Heightened political risks in the Middle East and East Asia could trigger safe haven flows back into bonds.
- There are also increasing concerns that the reluctance of western economies to raise interest rates significantly for some years, plus the huge quantitative easing measures which remain in place (and may be added to by the European Central Bank in the near future), has created potentially unstable flows of liquidity searching for yield and therefore heightened the potential for an increase in risks in order to get higher returns. This is a return of the same environment which led to the 2008 financial crisis.

4.8 Capita's Interest Rate Forecast

The latest interest rate forecast produced by Capita is as follows:

	End Sept-14 Actual	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16
	%	%	%	%	%	%	%	%	%	%
BANK RATE	0.50	0.50	0.75	0.75	1.00	1.00	1.25	1.25	1.50	1.75
5yr PWLB	2.77	2.70	2.80	2.90	3.00	3.00	3.10	3.20	3.30	3.40
10yr PWLB	3.46	3.50	3.60	3.70	3.80	3.90	4.00	4.10	4.10	4.20
25yr PWLB	4.04	4.10	4.20	4.30	4.40	4.50	4.60	4.70	4.80	4.80
50yr PWLB	4.03	4.10	4.20	4.30	4.40	4.50	4.60	4.70	4.80	4.80

The above Capita forecasts for PWLB rates are for the PWLB certainty rates which include a 0.20% reduction for new PWLB borrowing from 1st November 2012 by local authorities that apply to access the rate (as most local authorities have done, including Inverclyde Council).

4.9 Treasury Management Strategy Statement and Annual Investment Strategy Update

The Treasury Management Strategy Statement for 2014/15 was approved by the Council on 10th April 2014. 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 Capita's suggested creditworthiness approach, including sovereign credit rating and credit default swap (CDS) overlay information provided by Capita.

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

The Council have undertaken no borrowing so far this year to fund forthcoming capital expenditure. It is anticipated that some borrowing may 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 10th April 2014 are still appropriate.

4.10 Investment Portfolio 2014/15

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 2014/15	Annualised Rate of Return (gross of fees)	Benchmark Return (3 Month LIBID uncompounded)
£55,300,000	0.76%	0.42%

The Council have outperformed the benchmark by 0.34% resulting in additional income to the Council in the period of £94,000 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 2014, compared to Capita's counterparty list and to the position at 1st April 2014, is shown in Appendix 2.

4.11 New External Borrowing

The Council's capital financing requirement (CFR) is, based on the latest capital programme, £2.7m for financial year 2013/14 and £16.2m 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 a decrease in interest rates during the first six months of 2014/15 across longer dated maturity bands, but a rise in the shorter maturities, reflecting in part the expected rise in the Bank rate.

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 2014					
	1 year	5 year	10 year	25 year	50 year
High	1.49%	2.87%	3.66%	4.30%	4.28%
Date	16/07/2014	03/07/2014	20/06/2014	03/04/2014	02/04/2014
Low	1.20%	2.48%	3.16%	3.74%	3.72%
Date	08/04/2014	28/08/2014	28/08/2014	01/09/2014	29/08/2014
Average	1.35%	2.66%	3.47%	4.10%	4.07%
Spread between High and Low	0.29%	0.39%	0.50%	0.56%	0.56%
01/04/2014	1.24%	2.65%	3.63%	4.29%	4.27%
30/09/2014	1.37%	2.57%	3.26%	3.84%	3.83%
Spread between 01/04/2014 and 30/09/2014	0.13%	0.08%	0.37%	0.45%	0.44%

The Council has not borrowed in advance of need in 2014/15 and has no intention of doing so.

4.12 Debt Rescheduling
No debt rescheduling was undertaken during the first six months of 2014/15.

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 other than the exceeding of the Council's Counterparty Limit with the Bank of Scotland by a maximum of £0.6m for 2 days in July 2014 (and as homologated by the Policy & Resources Committee).

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

4.14 Performance Measurement 2013/14
Appendix 4 shows the outturn for Prudential Indicators for 2012/13 and 2013/14 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.

4.15 Other Issues
The Council's contract with its treasury advisers ran until 30th June 2014 with the option for a further one year extension until 30th June 2015. The Council took up the extension.

The treasury advisers are Capita Treasury Solutions Limited who were renamed from Sector Treasury Services Limited on 1 October 2014.

Approval is sought from Committee to proceed with procuring treasury advisers' services on the basis of a contract for 3 years with the option of a further 1 year extension. The provision of such services to public sector bodies is extremely specialised with a very small number of potential providers. Committee are therefore requested to approve that procurement is by negotiation with the current provider (Capita Treasury Solutions Limited) subject to the approval of the Acting Corporate Director Environment and Regeneration and the Head of Legal & Property Services and the annual cost not to exceed £22,000 per year. This cost will be contained within the existing budget for loan charges.

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 £94,000. 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.

Repopulation: None

6.0 CONSULTATIONS

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

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 2014/15-2016/17.

Appendix 1

TREASURY MANAGEMENT
GLOSSARY OF TERMS

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

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

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.

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

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

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

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

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

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

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

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

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

The highest credit rating is AAA.

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

Eurozone
This is the name given to the countries in Europe that have the Euro as their currency. Interest rates in the Eurozone are set by the European Central Bank. The Eurozone is comprised of the following 18 countries: Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia, and Spain.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Sector
Sector Treasury Services Limited is the former name of Capita Treasury Solutions Limited who are the Council’s treasury management advisers.

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 2014.

Appendix 2

INVESTMENT PORTFOLIO

This Appendix shows the Council's Investment Portfolio as at 1st April 2014 and as at 30th September 2014. The Portfolio includes items included as Other Investments under the latest guidance on such matters.

Investments As At 1st April 2014					
	Capita Colour Category And Maximum Investment Period	Annual Rate	Amount	Deposit Type	Maturity Date
Investments			£		
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	0.95%	5,000,000	Fixed Term	12-Feb-15
			32,500,000		
Deposit Accounts					
Bank of Scotland	BLUE - 12 Months	0.50%	10,605,700	Call	---
Svenska Handelsbanken	ORANGE - 12 Months	0.50%	5,002,055	Call	---
Santander UK	GREEN - 100 Days	0.40%	494	Call	---
RBS	BLUE - 12 Months	0.25%	275	Call	---
			15,608,524		
Other Investments					
Holdings of Shares, Bonds, and Units	---	---	2,000	War Stock	---
Loans Made To Third Parties	---	---	289,864	---	---
Investment Properties	---	---	0	---	---
			291,864		
TOTAL			**48,400,388**		

Investments As At 30th September 2014					
	Capita Colour Category And Maximum Investment Period	Annual Rate	Amount	Deposit Type	Maturity Date
Investments			£		
Bank of Scotland	BLUE - 12 Months	0.70%	5,000,000	Fixed Term	05-Dec-14
Bank of Scotland	BLUE - 12 Months	0.70%	5,000,000	Fixed Term	08-Jan-15
Bank of Scotland	BLUE - 12 Months	0.95%	5,000,000	Fixed Term	12-Feb-15
Bank of Scotland	BLUE - 12 Months	0.70%	5,000,000	Fixed Term	16-Mar-15
Bank of Scotland	BLUE - 12 Months	0.95%	5,000,000	Fixed Term	06-May-15
Bank of Scotland	BLUE - 12 Months	0.95%	5,000,000	Fixed Term	21-May-15
Bank of Scotland	BLUE - 12 Months	0.95%	7,500,000	Fixed Term	07-Jul-15
Bank of Scotland	BLUE - 12 Months	0.95%	5,000,000	Fixed Term	15-Sep-15
			42,500,000		
Deposit Accounts					
Bank of Scotland	BLUE - 12 Months	0.50%	4,430,600	Call	---
Svenska Handelsbanken	ORANGE - 12 Months	0.50%	5,000,000	Call	---
Santander UK	RED - 6 Months	0.40%	495	Call	---
			9,431,095		
Other Investments					
Holdings of Shares, Bonds, and Units	---	---	2,000	War Stock	---
Loans Made To Third Parties	---	---	266,330	---	---
Investment Properties	---	---	0	---	---
			268,330		
TOTAL			**52,199,425**		

Appendix 3

PRUDENTIAL/TREASURY INDICATORS AND COUNCIL POLICY LIMITS

Prudential and Treasury Indicators				
	Estimate For 2014/15	Actual For 2014/15 To 30/9/2014	Within Limits	
	£million	£million		
PI 7 - Authorised Limit for External Debt (Excl PPP)	262.000	219.693	Yes	
PI 8 - Operational Limit for External Debt (Excl PPP)	255.000	219.693	Yes	
PI 10 - Compliance with CIPFA code			Yes	
	%	%		
PI 11 - Upper limit on fixed interest rate exposure	140.000%	102.377%	Yes	
PI 12 - Upper limit on variable interest rate exposure	40.000%	-2.377%	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%	3.131%	Yes
1 - 2 years	40%	0%	20.780%	Yes
2 - 5 years	40%	0%	21.207%	Yes
5 - 10 years	40%	0%	26.423%	Yes
10 - 30 years	40%	0%	5.169%	Yes
30 - 50 years	40%	0%	23.290%	Yes
50 - 70 years	40%	0%	0.000%	Yes
TOTAL			100.000%	
	Limit For 2014/15 £	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 30/9/2014	Gross External Debt At 30/9/2014	Gross External Debt Below CFR?	
	£million	£million		
Gross External Debt Compared To Capital Financing Requirement (Excl PPP)	232.403	219.693	Yes	
Council Policy Limits				
	Limit per Council Policy	Actual As At 30/9/2014	Within Limits	
Maximum proportion of borrowing at variable interest rates	40%	21.823%	Yes	
Maximum proportion of debt restructuring in any one year	30%	0.000%	Yes	
Maximum proportion of debt repayable in any one year	25%	18.207%	Yes	

PRUDENTIAL INDICATORS AND LOANS FUND POOL RATE FOR INTEREST

PRUDENTIAL INDICATORS	**2012/13**	**2013/14**
	Actual	**Actual**
Capital Expenditure (Indicator 5)	£000	£000
Non – HRA (Including PPP)	48,578	32,646
Ratio of financing costs to net revenue stream (Indicator 1)		
Non – HRA (Including PPP)	10.93%	12.50%
Net borrowing requirement (Indicator 4)	£000	£000
As At 31 March	-66,005	-60,740
Capital Financing Requirement as at 31 March (Indicator 6)	£000	£000
Non – HRA (Including PPP)	296,906	304,506
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	296,906	304,506
Gross External Debt	298,215	291,875
Under/(Over) Against Capital Financing Requirement	(1,309)	12,631

LOANS FUND POOL RATE FOR INTEREST		
Year	Interest Rate	
2009/10	3.805%	
2010/11	4.300%	
2011/12	4.208%	
2012/13	3.811%	
2013/14	3.831%	