

PERTH AND KINROSS COUNCIL

11 December 2013

**TREASURY ACTIVITY AND COMPLIANCE REPORT
– 2013/14 QUARTER 2****Report by the Head of Finance****PURPOSE OF REPORT**

The purpose of this report is to provide a summary of Loans Fund transactions for the quarter ending 30 September 2013 and to report on compliance with the Council's Treasury Management Policy Statement (TMPS), Treasury Management Practices (TMP's) and the Investment Strategy for the same period.

1. BACKGROUND / MAIN ISSUES

- 1.1 Treasury Management Practice 6 (TMP6 - Reporting Requirements & Management Information Arrangements) requires that Loans Fund borrowing and lending activities are reported quarterly to the Council. This report covers the period from 1 July to 30 September 2013. TMP6 also requires that compliance with the approved TMPs, Treasury Policies and Investment Strategy are reported quarterly and this report also covers compliance for the period. The Prudential Indicators are also monitored throughout the year and reported as part of the quarterly Treasury Activity and Compliance report. Accordingly, this report covers the Council's approved Prudential Indicators for the quarter.

2. ECONOMIC BACKGROUND

- 2.1 The Bank of England Monetary Policy Committee (MPC) kept the Bank Rate at 0.5% throughout the quarter. The MPC also held the quantitative easing programme (aimed at encouraging economic activity) at a total of £375 billion.
- 2.2 Gross Domestic Product (GDP) increased by 0.8% in the three months to September. These figures showed the fastest growth in three years. There were also signs of growth in household spending with retail sales volume growing by 2.2% in comparison to last year. The CPI (Consumer Price Index) rate of inflation was 2.7% in September 2013, falling from 2.8% at the start of the quarter. Petrol and diesel prices fell, however this was offset by upward pressure from air fares. Underlying price pressures continue to ease, with wages and producer prices both showing little increase.
- 2.3 The unemployment rate fell by 18,000 to 2.49million in the three months to August. The number of people claiming Job Seekers Allowance also fell by 41,700. Excluding bonuses, earnings rose by just 1.0% over the last year, well below the rate of inflation at 2.7%, causing continuing pressure on household's disposable income.

- 2.4 The Bank of England's Funding for Lending scheme (FLS) continued, whilst the Government's Help to Buy scheme has also boosted demand in the mortgage market, resulting in an increase in mortgage approvals by high street banks. House prices have also risen over the period.
- 2.5 Internationally, the US congress failed to agree a budget, and as a consequence a partial shutdown began of non-essential government services. This caused instability in the markets until a short term resolution was secured which also extended the US debt limit just before the debt default deadline.
- 2.6 Eurozone activity showed some positive signs over the quarter. There remained a number of pressures, including some political unrest following the continuation of austerity measures in some countries.
- 2.7 The Public Works Loan Board's (PWLB) fixed interest rates, which are based on yields on UK gilts, showed only small movements over the quarter. Variable rates, which generally move in line with Bank Rate expectations, remained static. Interest rate movements are shown in the graph at Appendix I.

3. TREASURY ACTIVITY

- 3.1 A summary of the Council's treasury position and transactions is shown at Appendix II. This shows that the main activity during the quarter was the investment of short-term cashflow surpluses, mainly in notice deposit accounts. There were three fixed term investments for a longer period when the opportunity arose in line with cashflow forecasts and counterparty limits. There were no new longer term PWLB loans borrowed in the quarter, however, there was an instalment paid on an existing Equal Instalments of Principal (EIP) loan. The level of funds held on temporary loan by local bodies and trusts decreased slightly over the quarter. There were two short term borrowing transactions undertaken during the quarter to meet cashflow requirements.
- 3.2 The total amount of investments increased over the quarter, closing at £40.3M compared with £37.25M at the end of the last quarter. This can be attributed to cashflow fluctuations which are anticipated to reduce the level of investments over the remainder of the year. The average rate of interest earned on investments outstanding at the end of the quarter decreased from 1.50% to 0.98%, as some investments at higher rates matured and equivalent replacement deposits were no longer available as banks reduced their investment rates. The average lending period to Banks for fixed term deposits was 251 days, decreasing from the previous quarter's average period of 365 days, however there was only one such deposit made in the quarter. This was in line with the need to place most deposits in notice and instant access funds to meet more immediate cashflow requirements. The average lending rate on fixed deposits decreased from 1.10% in the previous quarter to 0.84%, reflecting the shorter term periods undertaken in the current quarter.

- 3.3 Most of the investment transactions in the quarter were through the Council's instant access and notice deposit accounts, to meet daily cashflow requirements. The average interest rate on these accounts for the quarter decreased from 0.51% to 0.48% as a result of interest rate reductions to these accounts. All of the above investment activities are consistent with the Council's current investment strategy and cashflow requirements.
- 3.4 There were two temporary loans undertaken during the quarter to meet cashflow requirements. These were taken for the shortest time period possible (averaging 4.8 days) and at the lowest rate available. Funds held from associated bodies and organisations decreased slightly over the quarter in line with the bodies own cashflows from £1.46M to £1.26M. The average rate remained unchanged at 0.10%.

4. COMPLIANCE

- 4.1 For the quarter ending 30 September 2013, there were no breaches in compliance with the Council's approved Treasury Management Policy Statement, TMPs or lending limits (as detailed in Treasury Management Practice 4 TMP4 - Approved Instruments, Methods & Techniques).
- 4.2 TMP4 requires that a working list of specific approved counterparties (including lending limits) is maintained and updated regularly for any movements in credit ratings or Credit Default Swap prices. The Council's approved lending policy incorporates Sector Treasury Services' suggested maximum lending period for each counterparty. Appendix III shows the list of approved counterparties based on the current lending policy, as at November 2013.
- 4.3 A further requirement of TMP4 is that of cashflow performance measurement, which is expressed as the average closing cleared bank balance for the period. For the quarter ending 30 September 2013 the average closing cleared bank balance was £2,233.62 (credit). This is within the set target range of £50,000 (debit or credit).

5. INVESTMENT STRATEGY COMPLIANCE AND PERFORMANCE

- 5.1 In essence, the Treasury Investment Strategy approved by the Council for 2013/14 (Report 13/102 refers) sought to ensure security over principal sums invested whilst obtaining optimum returns consistent with this approach. Therefore, the only Permitted Investments are in low risk organisations. The limits for each Permitted Investment and individual counterparty ensure a good spread of investments thereby also spreading any risk. The Council also needs to ensure good liquidity at all times and consequently investments must be made in accordance with cashflow requirements. The approved Strategy also seeks to reduce the level of investments during the current period of low investment returns and increased risks, subject to longer term funding requirements.

- 5.2 The strategy was applied in full over the quarter with no breaches in compliance with treasury limits, whilst liquidity was maintained by the extensive use of instant access and notice deposit accounts as detailed in Section 3 above. The original Strategy also anticipated that investments would not exceed £50M during the year unless, for example, the Council undertook new long term borrowing. There has been no new PWLB long term borrowing undertaken in the current financial year, however, the level of investments did exceed the £50M level on a few occasions as a result of a peaks in the cashflow. The highest level in the current year was £52.25M on 17 July 2013.
- 5.3 There were no additional risks identified or borrowing in advance of need undertaken in the quarter.
- 5.4 The Investment Strategy also incorporates investments held by the Common Good Funds. All such investments during the quarter were in line with the approved strategy.
- 5.5 The only Council funds held by external managers related to Council administered Charitable Trusts.
- 5.6 The Annual Property Investment Strategy for 2013/14 was also approved by the Council at its meeting on the 27 February 2013 (Report 13/102 refers) and has been complied with in full, with no breaches in compliance with permitted investment limits.
- 5.7 The budgeted income for 2013/14 was projected in the Annual Property Investment Strategy at £1,798,000. This has reduced by £180K from 2012/13 in light of the current economic and market conditions.
- 5.8 There were neither additional risks identified nor new property investments entered into in the quarter. The strategy action plan for the rationalisation of the commercial property portfolio remains on programme.

6. TREASURY MANAGEMENT UPDATE

- 6.1 The Co-operative Bank was re-appointed as the Council's bankers from 1 April 2013 for four years. Subsequent to this, the bank regulator, the Prudential Regulation Authority (PRA), has identified a requirement for the bank to raise an additional £1.5 billion of capital. This had made the future of the bank uncertain, however, an agreement between the bank and its major bondholders has now been reached. If this agreement is endorsed by the required number of bondholders (75% by value and 50% by number), the Co-operative Group would no longer be the majority shareholder in the Co-operative Bank. The outcome is expected to be known on 12 December 2013 and agreement would remove much of the uncertainty over the bank's immediate future. Failure to get the necessary agreement from the bondholders would result in the bank being taken over by the Bank of England under special powers, however this outcome is not anticipated.

- 6.2 At the same time, the Co-operative Bank has completed a review of its business and has announced that it is to focus in future on personal retail banking and banking for small and medium sized enterprises. They are therefore withdrawing from providing transactional banking services to local authorities. This plan will be implemented by not seeking to renew their existing banking contracts at expiry. Therefore, when the Council's current contract with the Co-operative Bank ends on 31 March 2017, the Council will need to appoint different bankers. However, the Co-operative Bank also advise that they will assist authorities change bank before the expiry date if they wish to do so. The Council is therefore evaluating the implications and costs associated with this announcement, and further updates will be submitted to the Council in due course.
- 6.3 Additionally, the Co-operative Bank's credit rating has remained below the Council's minimum criteria over the year and the bank has therefore been excluded from the approved list of counterparties. However, as the Council's bankers, it is proposed that the Co-operative Bank is temporarily re-instated to the approved list of Counterparties during the Christmas closedown period. As the Council cannot instigate payments during the closedown, the only investments available to officers working from home during that period are with the Council's own bank.
- 6.4 Accordingly it is proposed that from Tuesday 24 December 2013 to Thursday 9 January 2014 the Co-operative Bank is re-instated to the approved list of counterparties and that a £15M upper limit for cashflow investments with the Co-operative Bank is applied. This is in line with projected cashflow balances over the period. However, all investments undertaken during this period must mature on or before Thursday 9 January 2014.
- 6.5 Given the recent announcements by the Co-operative Bank, and the short term nature of these arrangements, the risks associated with the above proposals are considered to be acceptable at this stage. In particular, the officers will instruct transactions in advance of the Council closedown to invest any forecast surplus funds over the holiday period on the day they arise with other counterparties. It is therefore anticipated that funds will only be invested with the Co-operative Bank during the period as a last resort. This could arise, for example, in the event that Council receipts are higher than forecast.
- 6.6 Longer term risks have been acknowledged by two of the major credit rating agencies, who have put the bank on "negative outlook", and with one also downgrading the bank's long term rating. This is based on their belief that the bank would be less likely to gain government support in future once the current review and restructuring of its business has been implemented, together with the risks to the bank associated with implementing the revised strategy.
- 6.7 In November 2011 the Council approved a loan of £200,000 to Pitlochry Festival Theatre (PFT) to support the transformation of the theatre's operations (Report No. 11/597). The secured, interest free loan of up to a

maximum of £200,000 was to be repayable over a maximum term of ten years with an initial payment holiday of up to two years. The first repayment was due to the Council in December 2013. Pitlochry Festival Theatre has recently contacted the Council seeking a deferral of the first payment to December 2014 thereby extending the repayment period by one year. They advise that the reason for seeking a deferral is that expenditure has been incurred on the expectation that funding would be awarded by Creative Scotland. Subsequently, PFT has been advised by Creative Scotland that the full amount of funding anticipated would not be awarded leading to short term cash flow issue. It is recommended that the proposed extension to the loan repayment period is approved.

7. ICELANDIC BANKS

- 7.1 The funds repaid by Glitnir in Icelandic Krona (ISK) remain in an escrow account in Iceland in accordance with the requirements of the Icelandic Central Bank. The estimated value of the ISK amounts to £211,000 as at 31 March 2013. There have been no further developments over the quarter in respect of these funds.

8. PRUDENTIAL INDICATORS

- 8.1 The Prudential Indicators for the seven years 2013/14 to 2019/20 were approved by the Council at its meeting on 27 February 2013 (report 13/102 refers). These indicators have been reviewed and the latest estimates as at 30 September 2013 are shown at Appendix IV. The indicators are based on the latest capital expenditure estimates in the Composite Capital Budget 2013/20 and the Housing Investment Programme 2013/18.
- 8.2 It can be seen that all indicators are in line with expectations and all limits were complied with throughout the period. However, in light of the additional expenditure and borrowing approved since the Indicators were set, the projections for the ratio of Financing Costs to the Net Revenue Stream and Gross External Debt are close to their limit in later years. These indicators will be monitored closely and may need to be revised depending on the approach adopted to managing the Revenue and Capital Budget over the medium term. In addition, the Estimates of Capital Expenditure and Capital Financing (Borrowing) Requirement have increased in line with the additional capital expenditure and financing. However, the Council's plans remain affordable, prudent and sustainable over the medium term.

9. CONCLUSION AND RECOMMENDATIONS

- 9.1 The main activities during the quarter were the lending of surplus cashflow funds and the repayment of an instalment of a fixed term EIP PWLB loan. Most of the investment activity related to increased use of instant access and notice accounts. This maintained liquidity during the quarter to meet an increased cashflow requirement. The Council adhered to its Investment Strategy and policies throughout the quarter.

- 9.2 The UK economy showed some signs of growth with GDP increasing by 0.8% in the three months to September. CPI inflation remained fairly static at 2.7%. The Monetary Policy Committee maintained the Bank Rate at 0.5%, and there was no further quantitative easing during the quarter.
- 9.3 The Prudential Indicators have been updated for the years up to 2019/20, and all limits and indicators are in line with expectations. However, a revision of these indicators may be required in future due to additional capital expenditure and borrowing.
- 9.4 It is recommended that the Council:
1. Notes the content of this report, which is submitted in accordance with the Council's approved Treasury Management Practices.
 2. Approves the inclusion of the Co-operative Bank on the Council's approved list of counterparties over the Christmas closedown period for Treasury Management purposes, from 24 December 2013 to 9 January 2014, as detailed in Sections 6.3 to 6.5.
 3. Approves the deferral of the loan repayment by Pitlochry Festival Theatre to February 2015 thereby extending the repayment period by one year, as detailed in Section 6.7.

Author(s)

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Approved

Name	Designation	Date
John Symon	Head of Finance	2 December 2013

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ANNEX

1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

Strategic Implications	Yes / None
Community Plan / Single Outcome Agreement	None
Corporate Plan	Yes
Resource Implications	
Financial	Yes
Workforce	Yes
Asset Management (land, property, IST)	Yes
Assessments	
Equality Impact Assessment	Yes
Strategic Environmental Assessment	Yes
Sustainability (community, economic, environmental)	Yes
Legal and Governance	None
Risk	None
Consultation	
Internal	Yes
External	None
Communication	
Communications Plan	None

1. Strategic Implications

1.1. Corporate Plan

1.1.1. The Council's Corporate Plan 2013 – 2018 lays out five outcome focussed strategic objectives which provide clear strategic direction, inform decisions at a corporate and service level and shape resources allocation. They are as follows:

- (i) Giving every child the best start in life;
- (ii) Developing educated, responsible and informed citizens;
- (iii) Promoting a prosperous, inclusive and sustainable economy;
- (iv) Supporting people to lead independent, healthy and active lives; and
- (v) Creating a safe and sustainable place for future generations.

1.1.2 This report relates to all of these objectives.

2. Resource Implications

2.1. Financial

2.1.1. There are no direct financial implications arising from this report other than those reported within the body of the main report.

2.2. Workforce

2.2.1. There are no direct workforce implications arising from this report other than those reported within the body of the main report.

2.3. Asset Management (land, property, IT)

2.3.1. There are no direct asset management implications arising from this report other than those reported within the body of the main report.

3. **Assessments**

3.1. Equality Impact Assessment

3.1.1. Under the Equality Act 2010, the Council is required to eliminate discrimination, advance equality of opportunity, and foster good relations between equality groups. Carrying out Equality Impact Assessments for plans and policies allows the Council to demonstrate that it is meeting these duties.

3.1.2. The information contained within this report has been considered under the Corporate Equalities Impact Assessment process (EqIA) and has been assessed as **not relevant** for the purposes of EqIA.

3.2. Strategic Environmental Assessment

3.2.1 The Environmental Assessment (Scotland) Act 2005 places a duty on the Council to identify and assess the environmental consequences of its proposals.

3.2.2 The information contained within this report has been considered under the Act. However, no action is required as the Act does not apply to the matters presented in this report.

3.3. Sustainability

3.3.1 Under the provisions of the Local Government in Scotland Act 2003 the Council has to discharge its duties in a way which contributes to the achievement of sustainable development. In terms of the Climate Change Act, the Council has a general duty to demonstrate its commitment to sustainability and the community, environmental and economic impacts of its actions.

3.3.2 The information contained within this report has been considered under the Act. However, no action is required as the Act does not apply to the matters presented in this report.

4. **Consultation**

4.1 The Chief Executive, and the Council's Treasury advisors, Sector Treasury Services, have been consulted in the preparation of this report.

2. BACKGROUND PAPERS

- 2.1 No background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) were relied on to any material extent in preparing the above report.

3. APPENDICES

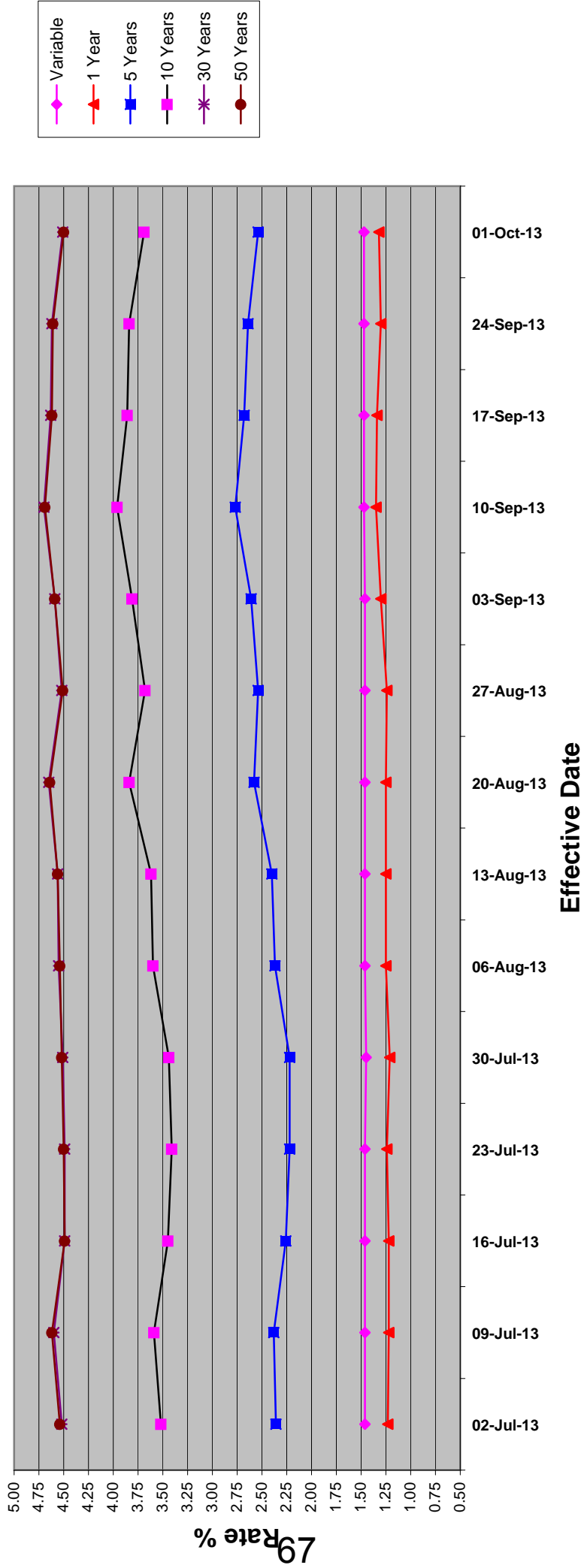
Appendix I – PWLB Fixed Maturity & Variable Interest Rates from 1 July to 1 October 2013.

Appendix II – Summary of the Treasury Position and Transactions from 1 July to 30 September 2013.

Appendix III – Approved Investment Counterparty List.

Appendix IV – Analysis of Prudential Indicators Quarter ending 30th September 2013.

PWLB Fixed Maturity & Variable Interest Rates
From 1 July 2013 to
1 October 2013



**SUMMARY OF THE TREASURY POSITION AND TRANSACTIONS APPENDIX II
FROM 1 JULY TO 30 SEPTEMBER 2013**

1 LENDING

(a) <u>Investments Outstanding</u>	Outstanding 30-Jun-13 £	Average Rate	Outstanding 30-Sep-13 £	Average Rate
Banks (Fixed Deposits)	37,250,000	1.50%	40,300,000	0.98%
Money Market Funds	0	0.00%	0	0.00%
Building Societies/Subsidiary Banks (Fixed)	0	0.00%	0	0.00%
Other Local Authorities	0	0.00%	0	0.00%
TOTAL	37,250,000	1.50%	40,300,000	0.98%

(b) Investment Transactions - 1st July to 30th September 2013

<u>Fixed Deposits</u>	<u>No.</u>	<u>Average Amount (£)</u>	<u>Average Rate (%)</u>	<u>Average Term (Days)</u>	<u>Total Interest (£)</u>
Banks	3	3,333,333	0.84%	251	59,900.68
	3	3,333,333	0.84%	251	59,900.68

<u>Instant/Notice Accounts</u>	<u>Average Amount (£)</u>	<u>Average Rate (%)</u>	<u>Total Interest (£)</u>
Instant Access account	2,582,152	0.69%	7,023.70
95 day notice account	14,000,000	0.80%	31,386.30
Money Market Funds	3,228,767	0.43%	3,683.70
Other Local Authorities	0	0.00%	0.00
	4,952,730	0.48%	42,093.71

2 BORROWING

(a) Long Term Borrowing 1st July to 30th September 2013

	<u>No.</u>	<u>Average Rate (%)</u>	<u>Amount (£)</u>
None	0	0.00%	0
	0	0.00%	0

(b) Long Term Debt Repayments 1st July to 30th September 2013

	<u>No.</u>	<u>Average Rate (%)</u>	<u>Amount (£)</u>
PWLB - EIP Instalment	1	4.02%	80,645
	1	4.02%	80,645

(c) Long Term Debt Outstanding

	Outstanding 30-Jun-13 £	Average Rate	Outstanding 30-Sep-13 £	Average Rate
Public Works Loan Board	148,854,484	4.11%	148,773,839	4.11%
Money Market Loans (LOBO's)	43,200,000	4.59%	43,200,000	4.59%
Other Long Term Debt	290,000	0.75%	290,000	0.75%
TOTAL	192,344,484	4.21%	192,263,839	4.21%

**SUMMARY OF THE TREASURY POSITION AND TRANSACTIONS APPENDIX II
FROM 1 JULY TO 30 SEPTEMBER 2013**

(d) Temporary Borrowing Outstanding

	<u>Outstanding 30-Jun-13</u>	<u>Average Rate</u>	<u>Outstanding 30-Sep-13</u>	<u>Average Rate</u>
	£		£	
Banks and Building Societies	0	0.00%	0	0.00%
Other Local Authorities and Corporations	0	0.00%	3,590,000	0.28%
Local Trusts & Investors	1,461,182	0.10%	1,265,982	0.10%
TOTAL	<u>1,461,182</u>	<u>0.10%</u>	<u>4,855,982</u>	<u>0.23%</u>

(e) Temporary Market Borrowing - 1st July to 30th September 2013

	<u>No.</u>	<u>Average Amount (£)</u>	<u>Average Rate (%)</u>	<u>Average Term (Days)</u>	<u>Interest (£)</u>
Temporary Market Borrowing	2	2,405,000	0.28%	4.8	175.67
	<u>2</u>	<u>2,405,000</u>	<u>0.28%</u>	<u>4.8</u>	<u>175.67</u>

APPROVED INVESTMENT COUNTERPARTY LIST

	<u>Country</u>	<u>Credit Rating</u>	<u>CDS Range</u>	<u>Maximum Lending</u>	<u>Note</u>
Category 1 - Principal UK Clearing Banks - max £10M per Counterparty unless semi-nationalised max £20M					
(Minimum rating required Fitch A, F1)					
Barclays Bank plc	UK	A, F1	In range	3 months	
Lloyds Banking Group plc (incl HBOS and Bank Of Scotland) (1)	UK	A, F1	Nationalised	12 months	Individual limit £20M
HSBC Bank plc	UK	AA-, F1+	In range	12 months	
Royal Bank of Scotland plc (1)	UK	A, F1	Nationalised	12 months	Individual limit £20M
Santander UK plc	UK	A, F1	No data	3 months	
Standard Chartered Bank	UK	AA-, F1+	In range	12 months	

Category 2 - Foreign Banks & Institutions - max £7.5M per Counterparty

(Minimum rating required Fitch A, F1)

Australia and New Zealand Banking Group Lt	Aus	AA-, F1+	In Range	12 months	
Commonwealth Bank of Australia	Aus	AA-, F1+	In Range	12 months	
National Australia Bank Ltd	Aus	AA-, F1+	In Range	12 months	
Westpac Banking Corporation	Aus	AA-, F1+	In Range	12 months	
Bank of Montreal	Can	AA-, F1+	No data	12 months	
Bank of Nova Scotia	Can	AA-, F1+	No data	12 months	
Canadian Imperial Bank of Commerce	Can	AA-, F1+	No data	12 months	
National Bank of Canada	Can	A+, F1	No data	6 months	
Royal Bank of Canada	Can	AA, F1+	No data	12 months	
Toronto Dominion Bank	Can	AA-, F1+	No data	24 months	
Nordea Bank Finland plc	Finland	AA-, F1+	No data	6 months	
BNP Paribas	France	A+, F1	In Range	1 months	Sovereign Rating AA+
Credit Industriel et Commercial	France	A+, F1	No data	1 months	Sovereign Rating AA+
Deutsche Bank AG	Germany	A+, F1+	In Range	3 months	
DZ Bank AG	Germany	A+, F1+	No data	3 months	
Landesbank Berlin AG	Germany	A+, F1+	No data	3 months	
Landesbank Hessen-Thuringen Girozentral (Helaba)	Germany	A+, F1+	In Range	3 months	
Landwirtschaftliche Rentenbank	Germany	AAA, F1+	No data	12 months	
Hong Kong and Shanghai Banking Corporation Ltd	Hong Kong	AA-, F1+	No data	1 month	Sovereign Rating AA+
Banque et Caisse d'Epargne de l'Etat*	Luxemburg	AA+, A-1+	No data	6 months	
Clearstream Banking	Luxemburg	AA, F1+	No data	24 months	
Bank Nederlandse Gemeenten	Netherlands	AAA, F1+	No data	24 months	
Co-operatieve Centrale Raiffeisen	Netherlands	AA, F1+	In Range	12 months	
ING Bank NV	Netherlands	A+, F1+	In Range	3 months	
DnB NOR Bank	Norway	A+, F1	No data	6 months	
DBS Bank Limited	Singapore	AA-, F1+	No data	24 months	
Oversea-Chinese Banking Corp Ltd	Singapore	AA-, F1+	No data	24 months	
United Overseas Bank Ltd	Singapore	AA-, F1+	No data	24 months	
Nordea Bank AB	Sweden	AA-, F1+	No data	12 months	
Skandinaviska Enskilda Banken AB	Sweden	A+, F1	No data	6 months	
Swedbank AB	Sweden	A+, F1	No data	6 months	
Svenska Handelsbanken AB	Sweden	AA-, F1+	No data	6 months	
Credit Suisse	Switzerland	A, F1	In Range	3 months	
UBS AG	Switzerland	A, F1	In Range	3 months	
Bank of New York Mellon	USA	AA-, F1+	No data	1 month	Sovereign Rating AA+
HSBC Bank USA, National Association	USA	AA-, F1+	No data	1 month	Sovereign Rating AA+
JP Morgan Chase Bank NA	USA	A+, F1	In Range	1 month	Sovereign Rating AA+
Northern Trust Company	USA	AA-, F1+	No data	1 month	Sovereign Rating AA+
State Street Bank and Trust Company	USA	A+, F1+	No data	1 month	Sovereign Rating AA+
Wells Fargo Bank NA	USA	AA-, F1+	In Range	1 month	Sovereign Rating AA+

Category 3 - Subsidiary Banks & Building Societies - max £5M per Counterparty

(Minimum rating required Fitch A, F1)

(parent bank shown in brackets)

Subsidiary Banks**Building Societies**

Nationwide Building Society	UK	A, F1	No data	3 months	
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Category 4 - Other Local Authorities - max £10M per Counterparty

As arranged

APPROVED INVESTMENT COUNTERPARTY LIST

	<u>Country</u>	<u>Credit Rating</u>	<u>CDS Range</u>	<u>Maximum Lending</u>	<u>Note</u>
<u>Category 5 Money Market Funds - max £10M per Counterparty</u>					
(Minimum rating required Fitch AAA)					
Prime Rate Sterling Liquidity Fund (Class 3)	UK	AAA			
Deutsche Bank Sterling Fund	UK	AAA			
Insight Sterling Liquidity Fund (Class 5)	UK	AAA			
Royal Bank of Scotland GTF Sterling Fund (Class 4)	UK	AAA			
Ignis Sterling Liquidity Fund	UK	AAA			

Note:

(1) - Banks are part/majority owned by the UK government

Note - all Sovereign credit ratings for above Countries are AAA unless stated otherwise.

* Standard & Poor's Rating

Last Updated: 12-Nov-13

ANALYSIS OF PRUDENTIAL INDICATORS
- Quarter ending 30th September 2013

1 Financing Costs: Net Revenue Stream

The ratio of Capital Financing Costs (Loan Charges) to the Council's net revenue stream shall not exceed the following limits, which are based on historic levels, and allow some headroom for movement in interest rates. The estimated Financing Costs below are based on monitoring figures as at November 2013.

	<u>2013/14</u>	<u>2014/15</u>	<u>2015/16</u>	<u>2016/17</u>	<u>2017/18</u>	<u>2018/19</u>	<u>2019/20</u>
Prudential Limit - General Fund	12.50%	12.50%	12.50%	12.50%	12.50%	12.50%	12.50%
Estimated Ratio of Financing Costs to Revenue	8.48%	8.82%	8.96%	9.62%	10.31%	10.87%	11.71%
Prudential Limit - HRA	25.00%	25.00%	25.00%	25.00%	25.00%	25.00%	25.00%
Estimated Ratio of Financing Costs to Revenue	17.24%	18.64%	18.67%	19.02%	19.36%	19.06%	19.38%

2 Incremental Council Tax/Housing Rent from proposed capital and revenue plans

Estimated incremental Council Tax and Housing Rent resulting from the totality of the Council's capital and revenue plans are as follows:

	<u>2013/14</u>	<u>2014/15</u>	<u>2015/16</u>	<u>2016/17</u>	<u>2017/18</u>	<u>2018/19</u>	<u>2019/20</u>
Council Tax (Band D equivalent annual increase)	£ 0.00	£ 0.00	£ 0.00	£ 0.00	£ 0.00	£ 0.00	£ 0.00
Housing Rent (average weekly increase)	1.15	1.20	1.24	1.29	1.34	1.40	1.45

Note: There are no significant variations beyond the 5 year period to be taken into account.

3 Net Borrowing and Capital Financing Requirements

For prudence, net external borrowing must not exceed the total capital financing requirement, thus ensuring that over the medium term, borrowing is only undertaken for capital purposes. The estimated total net borrowing and Capital Financing Requirement at the end of each of the years are as follows:

	<u>Actual as at 30-Sep-13</u>	<u>Projected 31-Mar-14</u>	<u>Projected 31-Mar-15</u>	<u>Projected 31-Mar-16</u>	<u>Projected 31-Mar-17</u>	<u>Projected 31-Mar-18</u>	<u>Projected 31-Mar-19</u>	<u>Projected 31-Mar-20</u>
Net External Borrowing	289,696,860	294,678,447	298,236,227	317,086,945	361,353,930	365,658,374	368,504,956	370,023,913
Capital Financing Requirement	364,832,139	396,889,169	420,065,635	461,020,894	484,865,408	478,312,264	475,977,754	472,500,865

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4 Estimates of Capital Expenditure

The total estimated Capital Expenditure contained within the Council's Budgets for each year is as follows (as at November 2013):

	<u>2013/14</u>	<u>2014/15</u>	<u>2015/16</u>	<u>2016/17</u>	<u>2017/18</u>	<u>2018/19</u>	<u>2019/20</u>
<u>Composite Programme</u>							
Current estimate	47,655,000	53,766,000	66,817,000	49,625,000	22,941,000	27,403,000	28,033,000
Original Budget Estimate	54,232,000	63,871,000	45,428,000	39,225,000	23,290,000	29,133,000	29,083,000
Movement in Estimated Capital Expenditure	<u>(6,577,000)</u>	<u>(10,105,000)</u>	<u>21,389,000</u>	<u>10,400,000</u>	<u>(349,000)</u>	<u>(1,730,000)</u>	<u>(1,050,000)</u>

The Original Budget Estimates are those used per the Treasury Strategy & Prudential Indicator report on 27 February 2013, and based on the Capital Budget report on 14 February 2013
The latest estimates are per SP&R Capital Monitoring Report (27 November 2013)

<u>PPP Programme</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
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HRA

Current estimate	19,660,000	15,424,000	13,931,000	10,751,000	8,685,000	9,000,000	9,000,000
Original Budget Estimate	18,346,000	14,736,000	14,096,000	10,937,000	8,685,000	9,000,000	9,000,000
Movement in Estimated Capital Expenditure	<u>1,314,000</u>	<u>688,000</u>	<u>(165,000)</u>	<u>(186,000)</u>	<u>0</u>	<u>0</u>	<u>0</u>

The Original Budget Estimates are those used per the Treasury Strategy & Prudential Indicator report on 27 February 2013, and based on the HRA Budget report on 6 February 2013
The latest estimates are per SP&R Capital Monitoring Report (27 November 2013)

5 Estimate of Capital Financing Requirement

The estimate (as at November 2013) of the Capital Financing Requirement (ie new borrowing requirement for Capital Expenditure) for each year based on these plans is as follows:

	<u>2013/14</u>	<u>2014/15</u>	<u>2015/16</u>	<u>2016/17</u>	<u>2017/18</u>	<u>2018/19</u>	<u>2019/20</u>
<u>Estimate of Capital Financing Requirement (for the year)</u>							
<u>Composite Programme</u>							
Current Estimated Capital Financing Requirement	29,975,000	28,826,000	47,565,000	37,177,000	9,801,000	15,101,000	14,481,000
Original Budget Estimate	36,904,000	38,184,000	29,141,000	25,594,000	9,888,000	15,731,000	15,681,000
Movement in Estimated Capital Financing Requirement	<u>(6,929,000)</u>	<u>(9,358,000)</u>	<u>18,424,000</u>	<u>11,583,000</u>	<u>(87,000)</u>	<u>(630,000)</u>	<u>(1,200,000)</u>

The Original Budget Estimates are those used per the Treasury Strategy & Prudential Indicator report on 27 February 2013, and based on the Capital Budget report on 14 February 2013
The latest estimates are per SP&R Capital Monitoring Report (27 November 2013)

ANALYSIS OF PRUDENTIAL INDICATORS
- Quarter ending 30th September 2013

	<u>2013/14</u>	<u>2014/15</u>	<u>2015/16</u>	<u>2016/17</u>	<u>2017/18</u>	<u>2018/19</u>	<u>2019/20</u>
<u>PPP Programme</u>	0	0	0	0	0	0	0
<u>HRA</u>							
Current Estimated Capital Financing Requirement	15,493,000	11,535,000	9,533,000	6,058,000	3,463,000	5,000,000	5,000,000
Original Budget Estimate	14,124,000	10,847,000	9,698,000	6,244,000	3,463,000	5,000,000	5,000,000
Movement in Estimated Capital Financing Requirement	1,369,000	688,000	(165,000)	(186,000)	0	0	0

The Original Budget Estimates are those used per the Treasury Strategy & Prudential Indicator report on 27 February 2013, and based on the HRA Budget report on 6 February 2013
The latest estimates are per SP&R Capital Monitoring Report (27 November 2013)

6 External Debt (Gross and Net)

	As at 30-Sep-13	Projected 31-Mar-14	Projected 31-Mar-15	Projected 31-Mar-16	Projected 31-Mar-17	Projected 31-Mar-18	Projected 31-Mar-19	Projected 31-Mar-20
External Borrowing								
Public Works Loan Board	148,773,839	143,693,194	145,994,720	168,569,274	216,653,398	225,135,777	232,456,487	238,450,142
Market Bonds	43,200,000	43,200,000	43,200,000	43,200,000	43,200,000	43,200,000	43,200,000	43,200,000
Special Loans	290,000	290,000	290,000	290,000	290,000	290,000	290,000	290,000
Temporary Loans/Other Borrowing	4,855,982	1,394,800	1,394,800	1,394,800	1,394,800	1,394,800	1,394,800	1,394,800
Other Long Term Liabilities	132,877,039	129,150,453	125,406,707	121,682,871	117,865,732	113,687,797	109,213,669	104,738,971
Total Gross External Debt	329,996,860	317,728,447	316,286,227	335,136,945	379,403,930	383,708,374	386,554,956	388,073,913
Short Term Investments	(40,300,000)	(23,050,000)	(18,050,000)	(18,050,000)	(18,050,000)	(18,050,000)	(18,050,000)	(18,050,000)
Long Term Investments	0	0	0	0	0	0	0	0
Total Net External Debt	289,696,860	294,678,447	298,236,227	317,086,945	361,353,930	365,658,374	368,504,956	370,023,913

Note:

Operational Boundary 330,000,000 318,000,000 317,000,000 336,000,000 380,000,000 384,000,000 387,000,000 389,000,000
Authorised Limit 393,000,000 393,000,000 393,000,000 393,000,000 393,000,000 393,000,000 393,000,000 393,000,000

The Operational Boundary and Authorised Limit are based on Gross External Debt.

7 Adoption of the CIPFA code of practice for Treasury Management

Perth & Kinross Council fully complies with the requirements of the CIPFA Code of Practice for Treasury Management in the Public Services (as amended in November 2009).

ANALYSIS OF PRUDENTIAL INDICATORS
- Quarter ending 30th September 2013

8 Interest Rate Exposures

	Actual as at <u>30-Sep-13</u>	Projected <u>31-Mar-14</u>	Projected <u>31-Mar-15</u>	Projected <u>31-Mar-16</u>	Projected <u>31-Mar-17</u>	Projected <u>31-Mar-18</u>	Projected <u>31-Mar-19</u>	Projected <u>31-Mar-20</u>
<u>Fixed Interest Rate Debt</u>								
Total Fixed Rate Borrowing	286,940,878	278,133,647	276,691,427	295,542,145	334,809,130	339,113,574	341,960,156	343,479,113
Total Fixed Rate Investments	0	0	0	0	0	0	0	0
	<u>286,940,878</u>	<u>278,133,647</u>	<u>276,691,427</u>	<u>295,542,145</u>	<u>334,809,130</u>	<u>339,113,574</u>	<u>341,960,156</u>	<u>343,479,113</u>
Total Gross Borrowing	329,996,860	317,728,447	316,286,227	335,136,945	379,403,930	383,708,374	386,554,956	388,073,913
	<u>87.0%</u>	<u>87.5%</u>	<u>87.5%</u>	<u>88.2%</u>	<u>88.2%</u>	<u>88.4%</u>	<u>88.5%</u>	<u>88.5%</u>
Upper limit on Fixed Interest Rate Debt	100%	100%	100%	100%	100%	100%	100%	100%

Variable Interest Rate Debt

	Actual as at <u>30-Sep-13</u>	Projected <u>31-Mar-14</u>	Projected <u>31-Mar-15</u>	Projected <u>31-Mar-16</u>	Projected <u>31-Mar-17</u>	Projected <u>31-Mar-18</u>	Projected <u>31-Mar-19</u>	Projected <u>31-Mar-20</u>
Total Variable Rate Borrowing	43,055,982	39,594,800	39,594,800	39,594,800	44,594,800	44,594,800	44,594,800	44,594,800
Total Variable Rate Investments	(40,300,000)	(23,050,000)	(18,050,000)	(18,050,000)	(18,050,000)	(18,050,000)	(18,050,000)	(18,050,000)
	<u>2,755,982</u>	<u>16,544,800</u>	<u>21,544,800</u>	<u>21,544,800</u>	<u>26,544,800</u>	<u>26,544,800</u>	<u>26,544,800</u>	<u>26,544,800</u>
Total Net Borrowing (including investments arising from short term cash balances)	289,696,860	294,678,447	298,236,227	317,086,945	361,353,930	365,658,374	368,504,956	370,023,913
	<u>1.0%</u>	<u>5.6%</u>	<u>7.2%</u>	<u>6.8%</u>	<u>7.3%</u>	<u>7.3%</u>	<u>7.2%</u>	<u>7.2%</u>
Upper limit on Variable Interest Rate Debt	35%	35%	35%	35%	35%	35%	35%	35%

9 Maturity Structure

The maturity structure for the Council's fixed rate debt, as at 30th September 2013, measured from the start of the financial year is as follows:

	< 12 mths	12<24 mths	2<5 years	5<10 years	Over 10 years
Total Debt Maturing (£)	9,011,603	12,885,109	40,589,742	68,145,192	156,309,232
% of Total Fixed Debt	3.1%	4.5%	14.1%	23.7%	54.5%
Lower Limit	0%	0%	0%	0%	10%
Upper Limit	35%	35%	50%	75%	95%

10 Principal Sums Invested Longer Than 364 Days

The Upper Limit for sums invested for over 1 year up to 3 years is £10million. There were no sums invested which were outstanding for such periods as at the end of the quarter.