

PERTH AND KINROSS COUNCIL

17 December 2014

TREASURY ACTIVITY AND COMPLIANCE REPORT
– 2014/15 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 2014 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 2014. 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) grew by 0.8% in the three months to June and 0.7% in the three months to September 2014. More recent economic data suggests that growth will moderate in subsequent quarters. Employment levels continued to recover and the unemployment rate has fallen steadily over the last year, standing at 6% (just under 2 million people) by August 2014. The Consumer Price Index (CPI) measure of inflation fell steadily over the quarter, and was 1.2% in September, significantly below the MPC's target of 2%. However, wages only rose by 0.7% in August, continuing the reduction in real earnings. Retail sales only rose at a slow rate of 0.1% (July) and 0.4% (August), before falling in September by 0.3%. Sales are expected to remain subdued as a result of pressure on household incomes.
- 2.3 Internationally, the US Federal Reserve continued its tapering of bond asset purchases by \$10 billion per month as the American economy continued to improve, with the programme concluding in October 2014. Financial markets

were also affected by ongoing political concerns surrounding Ukraine, Russia, Iraq and Syria, whilst concerns about slowing economic growth in Europe, China and Japan remained. Other global issues such as Ebola, and its impact on travel and African economies, also affected markets.

- 2.4 Economic activity indicators in the Eurozone continue to suggest that the slow economic recovery remains fragile, with GDP falling to 0.0% in the quarter ending 30 June 2014. Within the Eurozone, several countries recorded negative growth, including Germany which had previously been the strongest economy within Europe. Inflation in the Eurozone has also continued to fall, and stood at 0.3% in September, with concerns of deflation continuing. Sovereign debt concerns also started to re-emerge in the quarter. The European Central Bank (ECB), therefore, reduced its interest rates further in September in order to stimulate economic activity. The ECB also introduced a limited package of purchasing private bonds, and there remains speculation that further stimulus by purchasing Eurozone Government bonds will follow.
- 2.5 The Public Works Loan Board's (PWLB) fixed interest rates, which are based on yields on UK gilts, ended the quarter broadly lower than at the start of the quarter. However, there were periods of increased volatility during the quarter, as markets re-acted to political and global issues, and to economic data. Variable rates, which generally move in line with Bank Rate expectations, remained static. The first increase in the Bank Rate had been expected around the end of the year, but following a spate of recent negative economic data, it is not now anticipated until the middle of next year. PWLB 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 the investment of short-term cashflow surpluses during the quarter, mainly in notice deposit accounts, but with an increase in fixed term investments also undertaken in the quarter in line with cashflow requirements and counterparty limits. Three long term fixed maturity PWLB loans totalling £15M were borrowed in the quarter, for an average term of 49 years and at an average rate of 3.83%. The only long term debt repayment in the quarter related to an instalment (£80,645) on the Equal Instalment of Principal (EIP) loan. There was no short term market loans borrowed in the quarter.
- 3.2 The average period for fixed term deposits made in the quarter was 184 days, reducing from the previous quarter's average period of 262 days. This reflects the placing of most deposits for 3 or 6 months in line with the counterparty limits. Those placed for longer were limited to 9 months reflecting the anticipated increase in the bank rate in the summer 2015. The average rate achieved in the quarter for fixed deposits reduced from 0.79% in the previous quarter to 0.64%, reflecting the shorter periods of investments made.
- 3.3 However, most of the investment transactions in the current quarter were through the Council's instant access and notice deposit accounts, to meet

daily cashflow requirements and to remain within counterparty limits. The average interest rate achieved on these accounts over the quarter reduced from 0.54% to 0.50%, reflecting a reduction in rates available on instant access accounts. All of the above investment activities are consistent with the Council's current investment strategy and cashflow requirements.

- 3.4 The total amount of investments increased over the quarter, closing at £62.0M compared with £52.8M at the end of the last quarter. This increase can be attributed to the new long term borrowing undertaken during the quarter, offset by the increased cashflow requirements during this time. The average rate of interest earned on investments outstanding at the end of the quarter increased marginally from 0.64% to 0.65%, reflecting the increased level of investment on fixed deposit terms.
- 3.5 During the quarter, three long term fixed rate loans totalling £15M were borrowed from the PWLB when rates had reduced during a period of market volatility. These comprised a £5M loan borrowed at the start of August and two loans totalling £10M borrowed at the start of September 2014. Whilst the Council's immediate cashflow remained positive, these loans were undertaken whilst long term rates remained relatively low, and had fallen further, whilst longer term forecasts all show rates gradually increasing over the next few years. Therefore, it is anticipated these loans will give rise to annual savings in interest compared to deferring the borrowing until the date it is actually required. The average term of the loans borrowed in the quarter is 49.2 years at an average rate of 3.83%. There were no long term debt repayments in the quarter other than an instalment of £80,645 due on the EIP loan.
- 3.6 Due to the positive cashflow position following the further PWLB borrowing, there was no borrowing of short-term market loans. Funds held from associated bodies and organisations reduced over the quarter from £1.75M to £1.59M, mainly due to the repayment of all funds held by one Trust. The average rate remained unchanged at 0.10%.

4. COMPLIANCE

- 4.1 For the quarter ending 30 September 2014, 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 Capita's suggested maximum lending period for each counterparty. Appendix III shows the list of approved counterparties based on the current lending policy, as at November 2014.
- 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 2014 the average closing cleared bank balance, based on balances held with the Royal Bank of Scotland, was £6,733.06 (credit). This is within the set target range of £50,000 (debit or credit). Following the transfer of the Council's banking arrangements to the Royal Bank of Scotland, balances held at the Co-operative Bank mainly reflected small credit balances, averaging £40,290.57. This figure is higher as such relatively small balances held in Co-operative Bank built up over several days before it became cost effective to transfer the funds to the Royal Bank of Scotland accounts. The last of the Co-operative Bank accounts were closed at the end of October 2014.

5. INVESTMENT STRATEGY COMPLIANCE AND PERFORMANCE

- 5.1 The Treasury Investment Strategy approved by the Council at its meeting on 26 February 2014 for 2014/15 (Report 14/77 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 current approved Strategy was based on the assumption that the level of investments would increase in the first half of the year, however they were not expected to exceed £50,000,000 unless new borrowing was undertaken early in the year.
- 5.2 As outlined above, £15M was borrowed during the quarter, with a further £25M borrowed in the previous quarter. By the end of September 2014, the level of investments had therefore exceeded the above assumption, and increased to £62.0M after peaking at £82.6M on 17 September 2014.
- 5.3 The Investment 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.
- 5.4 There were no additional risks identified or borrowing in advance of need undertaken in the quarter.
- 5.5 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.
- 5.6 The only Council administered funds held by external managers related to Council administered Charitable Trusts which are not covered by this Investment Strategy.
- 5.7 The Annual Property Investment Strategy for 2014/15 was also approved by the Council at its meeting on the 26 February 2014 (Report 14/77 refers) and has been complied with in full, with no breaches in compliance with permitted investment limits.

- 5.8 The budgeted income for 2014/15 for Commercial Property investments is £1,798,600. The latest projection for 2014/15 is £1,814,000, which reflects a small increase of £15,400 from the budget.
- 5.9 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. ICELANDIC BANKS

- 6.1 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. There have been no further developments over the quarter in respect of these funds, whilst the claim made by the Glitnir Winding Up Board is still subject to ongoing negotiations in Iceland. At the last valuation, the estimated value of the funds on deposit in Iceland amounts to £200,735.

7. PRUDENTIAL INDICATORS

- 7.1 The Prudential Indicators for the seven years 2014/15 to 2020/21 were approved by the Council at its meeting on 26 February 2014 (report 14/77 refers). These indicators have been reviewed and the latest estimates are shown at Appendix IV. The indicators are based on the latest capital expenditure estimates in the Composite Capital Budget 2014/21 and the Housing Investment Programme 2014/19.
- 7.2 It can be seen that all indicators are in line with expectations and all limits were complied with throughout the period. However, the following movements are worthy of note:
- Estimates of Capital Expenditure – the movements across all years on the Composite Programme and Housing Investment Programme reflect revised estimates and phasing of expenditure since the start of the year. The only significant movement in the current quarter relates to the inclusion of additional works approved for the Perth Office Programme.
 - Estimate of Capital Financing Requirement – the movements across all years on the Composite Programme and Housing Investment Programme mostly reflect the movements in expenditure identified above. The increase in estimated expenditure on the Perth Office Programme in the current quarter is funded by additional Prudential Borrowing.
- 7.3 In light of the additional expenditure and borrowing the projections for the ratio of Financing Costs to the Net Revenue Stream shows a gradually increasing trend, however, they remain comfortably within the Prudential limits. Therefore, the Council's plans remain affordable, prudent and sustainable over the medium term, however these indicators will continue to be monitored closely.

8. CONCLUSION AND RECOMMENDATIONS

- 8.1 The UK economy continued to show positive economic growth, with GDP of 0.7% in the last quarter to 30 September, and CPI inflation and unemployment both falling. However, annual earnings and retail sales only grew marginally. The Monetary Policy Committee maintained the Bank Rate at 0.5%, and there was no further quantitative easing.
- 8.2 Activities during the quarter included the lending of surplus cashflow funds, as well as long term borrowing. The investment activity related to use of instant access and notice accounts, whilst more funds were placed in fixed deposits. As longer term rates continued to be volatile during the quarter, the opportunity was taken to undertake further long term borrowing after rates had fallen. The previous Treasury Strategy had been to forego longer term borrowing in order to reduce investment balances, and since this outcome has been achieved, the Strategy has been to undertake the required borrowing in advance of the anticipated increase in longer term rates.
- 8.3 The Council adhered to its Investment Strategy and policies throughout the quarter, with no breaches in compliance. The Prudential Indicators have been updated for the years up to 2020/21, and include additional capital expenditure and borrowing approved by the Council, whilst all limits and indicators are in line with expectations.
- 8.4 It is recommended that the Council notes the content of this report, which is submitted in accordance with the Council's approved Treasury Management Practices.

Author(s)

Name	Designation	Contact Details
John Jennings	Senior Accountant	jjennings@pkc.gov.uk 01738 475564

Approved

Name	Designation	Date
John Symon	Head of Finance	10 November 2014

If you or someone you know would like a copy of this document in another language or format, (on occasion only, a summary of the document will be provided in translation), this can be arranged by contacting *(Report Author)*



Council Text Phone Number 01738 442573

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.

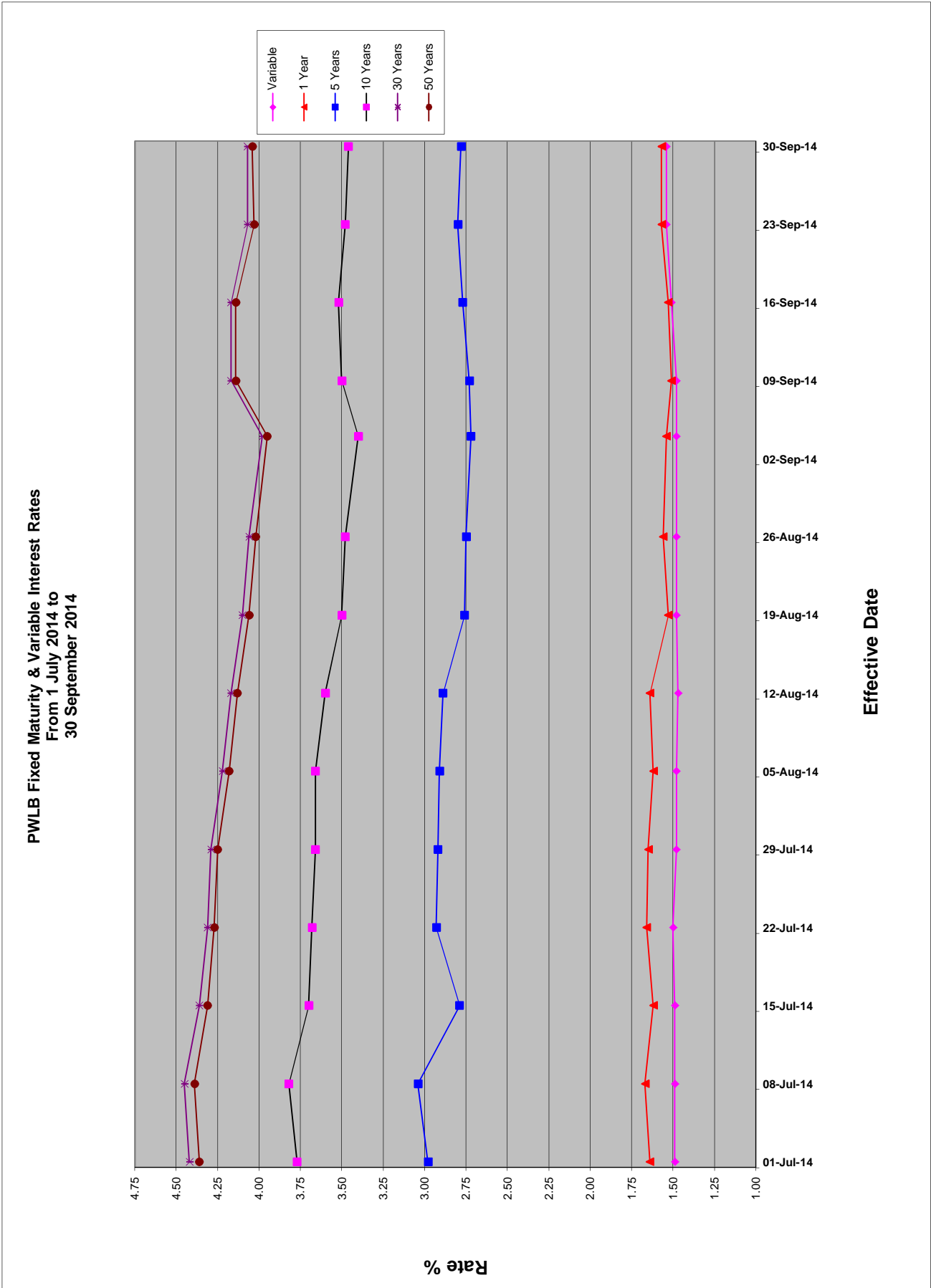
3. APPENDICES

Appendix I – PWLB Fixed Maturity & Variable Interest Rates from 1 July 2014 to 30 September 2014.

Appendix II – Summary of the Treasury Position and Transactions from 1 July to 30 September 2014.

Appendix III – Approved Investment Counterparty List.

Appendix IV – Analysis of Prudential Indicators Quarter ending 30th September 2014.



**SUMMARY OF THE TREASURY POSITION AND TRANSACTIONS APPENDIX II
FROM 1 APRIL TO 30 SEPTEMBER 2014**

1 INVESTMENTS

(a) Investment Transactions - 1st July to 30th September 2014

<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	4	4,375,000	0.70%	210	76,529.45
Foreign Banks and Institutions	1	5,000,000	0.52%	102	7,265.75
Building Soc/Subsidiary Banks	1	5,000,000	0.46%	92	5,797.26
Other Local Authorities	1	5,000,000	0.60%	185	15,205.48
	<u>7</u>	<u>4,500,000</u>	<u>0.64%</u>	<u>184</u>	<u>104,797.95</u>

<u>Instant/Notice Accounts</u>	<u>Average Amount (£)</u>	<u>Average Rate (%)</u>	<u>Total Interest (£)</u>
Instant Access accounts	2,650,055	0.47%	10,822.96
95 day notice account	5,000,000	0.60%	1,397.26
Money Market Funds	13,047,385	0.45%	24,387.85
	<u>6,899,147</u>	<u>0.50%</u>	<u>36,608.07</u>

(b) Investments Outstanding

	<u>Outstanding 30-Jun-14</u>	<u>Average Rate</u>	<u>Outstanding 30-Sep-14</u>	<u>Average Rate</u>
	<u>£</u>		<u>£</u>	
Banks	25,000,000	0.79%	30,598,090	0.76%
Foreign Banks and Institutions	7,503,411	0.55%	12,500,000	0.54%
Money Market Funds	15,250,000	0.43%	3,900,000	0.47%
Building Societies/Subsidiary Banks (Fixed)	5,000,000	0.63%	10,000,000	0.55%
Other Local Authorities	0	0.00%	5,000,000	0.60%
TOTAL	<u>52,753,411</u>	<u>0.64%</u>	<u>61,998,090</u>	<u>0.65%</u>

2 BORROWING

(a) Long Term Borrowing 1st July to 30th September 2014

	<u>No.</u>	<u>Average Rate (%)</u>	<u>Average Life (years)</u>	<u>Amount (£)</u>
PWLB - Maturity Loans	3	3.83%	49.2	15,000,000
	<u>3</u>	<u>3.83%</u>	<u>49.2</u>	<u>15,000,000</u>

(b) Long Term Debt Repayments 1st July to 30th September 2014

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

(c) Long Term Debt Outstanding

	<u>Outstanding 30-Jun-14</u>	<u>Average Rate</u>	<u>Outstanding 30-Sep-14</u>	<u>Average Rate</u>
	<u>£</u>		<u>£</u>	
Public Works Loan Board	173,693,194	4.11%	188,612,548	4.09%
Money Market Loans (LOBO's)	43,200,000	4.59%	43,200,000	4.59%
Local Authority Bond	5,000,000	1.45%	5,000,000	1.45%
Other Long Term Debt	290,000	0.75%	1,710,000	0.72%
TOTAL	<u>222,183,194</u>	<u>4.14%</u>	<u>238,522,548</u>	<u>4.10%</u>

(d) Short Term Market Borrowing - 1st July to 30th September 2014

**SUMMARY OF THE TREASURY POSITION AND TRANSACTIONS APPENDIX II
FROM 1 APRIL TO 30 SEPTEMBER 2014**

	<u>No.</u>	<u>Average Amount (£)</u>	<u>Average Rate (%)</u>	<u>Average Term (Days)</u>	<u>Interest (£)</u>
Short Term Market Borrowing	0	0	0.00%	0.0	0.00
	<u>0</u>	<u>0</u>	<u>0.00%</u>	<u>0.0</u>	<u>0.00</u>

(e) Short Term Local Borrowing Outstanding

	<u>Outstanding 30-Jun-14</u>	<u>Average Rate</u>	<u>Outstanding 30-Sep-14</u>	<u>Average Rate</u>
	£		£	
Local Trusts & Investors	1,747,576	0.10%	1,585,930	0.10%
TOTAL	<u>1,747,576</u>	<u>0.10%</u>	<u>1,585,930</u>	<u>0.10%</u>

APPROVED INVESTMENT COUNTERPARTY LIST

	<u>Country</u>	<u>Fitch Credit Rating</u>	<u>CDS Range</u>	<u>Maximum Lending</u>	<u>Note (2)</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	6 months	
Citibank International	UK	A, F1	In range	6 months	
Close Brothers	UK	A, F1	No data	3 months	
Goldman Sachs International Bank	UK	A, F1	Monitoring	3 months	
Lloyds Banking Group plc (incl HBOS and Bank Of Scotland) (3)	UK	A, F1	Nationalised	12 months	Individual limit £20M
HSBC Bank plc	UK	AA-, F1+	In range	12 months	
Royal Bank of Scotland plc (inc Nat West) (3)	UK	A, F1	Nationalised	12 months	Individual limit £20M
Santander UK plc (inc Cater Allen)	UK	A, F1	No data	6 months	
Standard Chartered Bank	UK	AA-, F1+	Monitoring	6 months	

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

(Minimum rating required Fitch A, F1)

Australia and New Zealand Banking Group Ltd	Aus	AA-, F1+	In range	12 months	
Commonwealth Bank of Australia	Aus	AA-, F1+	In range	12 months	
Macquarie Bank Ltd	Aus	A, F1	Monitoring	3 months	
National Australia Bank Ltd	Aus	AA-, F1+	In range	12 months	
Westpac Banking Corporation	Aus	AA-, F1+	In range	12 months	
BNP Paribas Fortis Bank	Belgium	A+, F1	No data	1 month	Sovereign Rating AA
KBC Bank	Belgium	A-, F1	No data	1 month	Sovereign Rating AA
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	12 months	
Nordea Bank Finland plc	Finland	AA-, F1+	No data	12 months	
Pohjola Bank	Finland	A+, F1	No data	12 months	
BNP Paribas	France	A+, F1	In range	1 month	Sovereign Rating AA+
Credit Agricole Corporate and Investment Bank	France	A, F1	In range	1 month	Sovereign Rating AA+
Credit Industriel et Commercial	France	A+, F1	No data	1 month	Sovereign Rating AA+
Credit Agricole SA	France	A, F1	In range	1 month	Sovereign Rating AA+
Bayern LB	Germany	A+, F1+	No data	6 months	
Deutsche Bank AG	Germany	A+, F1+	Monitoring	3 months	
DZ Bank AG	Germany	A+, F1+	No data	12 months	
Landesbank Baden Wuerttemberg	Germany	A+, F1+	No data	6 months	
Landesbank Hessen-Thueringen Girozentral (Helaba)	Germany	A+, F1+	In range	6 months	
Landwirtschaftliche Rentenbank	Germany	AAA, F1+	No data	24 months	
NRW Bank	Germany	AAA, F1+	No data	24 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 (1)	Luxemburg	AA+, A-1+	No data	24 months	
Clearstream Banking	Luxemburg	AA, F1+	No data	24 months	
Bank Nederlandse Gemeenten	Netherland	AAA, F1+	No data	24 months	
Cooperative Centrale Raiffeisen Boerenleenbank	Netherland	AA-, F1+	In range	12 Months	
ING Bank	Netherland	A+, F1+	In range	6 Months	
Nederlandse Waterchapsbank NV (1)	Netherland	AA+, A-1+	No data	24 Months	
DnB Bank (1)	Norway	A+, A-1	No data	6 months	
DBS Bank Limited	Singapore	AA-, F1+	No data	12 months	
Oversea Chinese Banking Corp Ltd	Singapore	AA-, F1+	No data	12 months	
United Overseas Bank Ltd	Singapore	AA-, F1+	No data	12 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	12 months	
Credit Suisse	Switzerland	A, F1	In range	6 months	
UBS AG	Switzerland	A, F1	In range	6 months	
Bank of America, NA	USA	A, F1	No data	6 months	
Bank of New York Mellon	USA	AA-, F1+	In range	12 months	
BOKF, NA	USA	A, F1	No data	6 months	
Citibank, NA	USA	A, F1	In range	6 months	
HSBC Bank USA, NA	USA	AA-, F1+	No data	12 months	
JP Morgan Chase Bank, NA	USA	A+, F1	In range	12 months	
Northern Trust Company	USA	AA-, F1+	No data	12 months	
State Street Bank and Trust Company	USA	AA-, F1+	No data	12 months	
US Bancorp	USA	AA-, F1+	No data	12 months	

APPROVED INVESTMENT COUNTERPARTY LIST

	<u>Country</u>	<u>Fitch Credit Rating</u>	<u>CDS Range</u>	<u>Maximum Lending</u>	<u>Note (2)</u>
Wells Fargo Bank, NA	USA	AA-, F1+	In range	12 months	

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

(Minimum rating required Fitch A, F1)

(parent bank shown in brackets)

Subsidiary Banks

Cater Allen plc (unconditionally guaranteed by Santander UK plc)	UK	A, F1	No data	6 months
------------------------------------------------------------------	----	-------	---------	----------

Building Societies

Coventry Building Society	UK	A, F1	No data	3 months
Leeds Building Society	UK	A-, F1	No data	3 months
Nationwide Building Society	UK	A, F1	No data	6 months

Category 4 - Other Local Authorities - max £10M per Counterparty

As arranged

Category 5 Money Market Funds - max £10M per Counterparty

(Minimum rating required Fitch AAA)

Federated Sterling Liquidity Fund (Class 3)	UK	AAA
Deutsche Bank Sterling Fund	UK	AAA
Insight Sterling Liquidity Fund (Class 5)	UK	AAA
Ignis Sterling Liquidity Fund	UK	AAA
Aberdeen Asset Management	UK	AAA

Note:

- (1) - Standard & Poor's credit ratings shown, as no Fitch credit rating available
- (2) - All Sovereign credit ratings for above Countries are AAA, unless stated otherwise.
- (3) - Banks are part/majority owned by the UK government

Last Updated: 03-Dec-14

ANALYSIS OF PRUDENTIAL INDICATORS
- Quarter ending 30th September 2014

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 December 2014.

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
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	8.28%	8.70%	9.33%	10.01%	10.56%	10.76%	11.09%
Prudential Limit - HRA	25.00%	25.00%	25.00%	25.00%	25.00%	25.00%	25.00%
Estimated Ratio of Financing Costs to Revenue	18.65%	19.49%	19.86%	19.35%	18.65%	18.19%	17.56%

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:

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
	£	£	£	£	£	£	£
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)	1.20	1.25	1.30	1.35	1.41	1.46	1.52

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:

	*Actual as at 30-Sep-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	Projected 31-Mar-21
Net External Borrowing	307,268,000	325,999,000	330,787,000	340,476,000	354,615,000	363,161,000	369,650,000	357,539,000
Capital Financing Requirement	404,251,000	419,086,000	441,199,000	492,521,000	500,430,000	495,226,000	492,168,000	477,125,000
Gross External Borrowing	369,267,000	355,999,000	355,787,000	360,476,000	374,615,000	383,161,000	389,650,000	377,539,000

* subject to close down of 2013/14 ledgers and accounts

**ANALYSIS OF PRUDENTIAL INDICATORS
- Quarter ending 30th September 2014**

4 Estimates of Capital Expenditure

The total estimated Capital Expenditure contained within the Council's Budgets for each year is as follows (as at December 2014):

Composite Programme	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Current estimate	60,772,000	60,112,000	84,984,000	41,746,000	26,829,000	28,666,000	15,850,000
Original Budget Estimate	53,005,000	69,293,000	53,685,000	24,978,000	29,202,000	29,129,000	15,433,000
Movement in Estimated Capital Expenditure	7,767,000	(9,181,000)	31,299,000	16,768,000	(2,373,000)	(463,000)	417,000

The Original Budget Estimates are those used per the Treasury Strategy & Prudential Indicator report on 26 February 2014, and based on the Capital Budget report on 13 February 2014
The latest estimates are per the Capital Monitoring approved at the Strategic Policy & Resources committee meeting on 3 December 2014

PPP Programme	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Original Budget and Current Estimate	0	0	0	0	0	0	0

HRA Programme	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Current estimate	17,636,000	17,177,000	10,751,000	8,685,000	8,737,000	10,000,000	10,000,000
Original Budget Estimate	19,064,000	13,931,000	10,751,000	8,685,000	8,966,000	10,000,000	10,000,000
Movement in Estimated Capital Expenditure	(1,428,000)	3,246,000	0	0	(229,000)	0	0

The Original Budget Estimates are those used per the Treasury Strategy & Prudential Indicator report on 26 February 2014, and based on the HRA Budget report on 29 January 2014.
The latest estimates are per the Capital Monitoring approved at the Strategic Policy & Resources committee meeting on 3 December 2014

5 Estimate of Capital Financing Requirement

The estimate (as at October 2014) of the Capital Financing Requirement (ie new borrowing requirement for Capital Expenditure) for each year based on these plans is as follows:

Composite Programme	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Current Estimated Capital Financing Requirement	38,241,000	26,644,000	62,803,000	26,274,000	13,396,000	14,617,000	3,350,000
Original Budget Estimate	33,215,000	45,031,000	37,397,000	10,587,000	15,600,000	15,027,000	2,933,000
Movement in Estimated Capital Financing Requirement	5,026,000	(18,387,000)	25,406,000	15,687,000	(2,204,000)	(410,000)	417,000

The Original Budget Estimates are those used per the Treasury Strategy & Prudential Indicator report on 26 February 2014, and based on the Capital Budget report on 13 February 2014
The latest estimates are per the Capital Monitoring approved at the Strategic Policy & Resources committee meeting on 3 December 2014

**ANALYSIS OF PRUDENTIAL INDICATORS
- Quarter ending 30th September 2014**

Appendix IV

PPP Programme	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Original Budget and Current Estimate	0	0	0	0	0	0	0

HRA Programme	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Current Estimated Capital Financing Requirement	12,697,000	11,748,000	5,850,000	3,175,000	2,392,000	5,000,000	5,000,000
Original Budget Estimate	14,788,000	8,502,000	5,850,000	3,175,000	2,621,000	5,000,000	5,000,000
Movement in Estimated Capital Financing Requirement	(2,091,000)	3,246,000	0	0	(229,000)	0	0

The Original Budget Estimates are those used per the Treasury Strategy & Prudential Indicator report on 26 February 2014, and based on the HRA Budget report on 29 January 2014. The latest estimates are per the Capital Monitoring approved at the Strategic Policy & Resources committee meeting on 3 December 2014

6 External Debt (Gross and Net)

External Borrowing	As at 30-Sep-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	Projected 31-Mar-21
Public Works Loan Board	188,612,548	179,451,258	183,289,968	197,128,678	215,467,388	228,306,098	239,144,808	231,483,518
Market Bonds	48,200,000	48,568,250	48,568,250	43,568,250	43,568,250	43,568,250	43,568,250	43,568,250
Special Loans	1,710,000	1,565,000	1,565,000	1,565,000	1,565,000	1,565,000	1,565,000	1,565,000
Temporary Loans/Other Borrowing	1,585,929	1,000,000	800,000	600,000	500,000	500,000	500,000	500,000
Other Long Term Liabilities	129,158,100	125,414,100	121,564,100	117,614,100	113,514,100	109,222,100	104,872,100	100,422,100
Total Gross External Debt	369,266,577	355,998,608	355,787,318	360,476,028	374,614,738	383,161,448	389,650,158	377,538,868
Short Term Investments	(61,998,090)	(30,000,000)	(25,000,000)	(20,000,000)	(20,000,000)	(20,000,000)	(20,000,000)	(20,000,000)
Long Term Investments	0	0	0	0	0	0	0	0
Total Net External Debt	307,268,487	325,998,608	330,787,318	340,476,028	354,614,738	363,161,448	369,650,158	357,538,868
Note:								
Operational Boundary	369,000,000	356,000,000	356,000,000	360,000,000	375,000,000	383,000,000	390,000,000	378,000,000
Authorised Limit	399,000,000	399,000,000	399,000,000	399,000,000	399,000,000	399,000,000	399,000,000	399,000,000

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 2014**

Appendix IV

8 Interest Rate Exposures

	Actual as at 30-Sep-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	Projected 31-Mar-21
Fixed Interest Rate Debt								
Total Fixed Rate Borrowing	327,770,648	315,233,608	315,222,318	315,111,028	329,349,738	337,896,448	344,385,158	332,273,868
Total Fixed Rate Investments	0	0	0	0	0	0	0	0
	327,770,648	315,233,608	315,222,318	315,111,028	329,349,738	337,896,448	344,385,158	332,273,868
Total Gross Borrowing	369,266,577	355,998,608	355,787,318	360,476,028	374,614,738	383,161,448	389,650,158	377,538,868
	88.8%	88.5%	88.6%	87.4%	87.9%	88.2%	88.4%	88.0%
Upper limit on Fixed Interest Rate Debt	100%	100%	100%	100%	100%	100%	100%	100%

	Actual as at 30-Sep-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	Projected 31-Mar-21
Variable Interest Rate Debt								
Total Variable Rate Borrowing	41,495,929	40,765,000	40,565,000	45,365,000	45,265,000	45,265,000	45,265,000	45,265,000
Total Variable Rate Investments	(61,998,090)	(30,000,000)	(25,000,000)	(20,000,000)	(20,000,000)	(20,000,000)	(20,000,000)	(20,000,000)
	(20,502,161)	10,765,000	15,565,000	25,365,000	25,265,000	25,265,000	25,265,000	25,265,000
Total Net Borrowing (including investments arising from short term cash balances)	307,268,487	325,998,608	330,787,318	340,476,028	354,614,738	363,161,448	369,650,158	357,538,868
	-6.7%	3.3%	4.7%	7.4%	7.1%	7.0%	6.8%	7.1%
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 2014, 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
Total Debt Maturing (£)	13,026,955	23,526,955	41,580,864	61,182,835	188,453,041	327,770,648
% of Total Fixed Debt	4.0%	7.2%	12.7%	18.7%	57.5%	100.0%
Lower Limit	0%	0%	0%	0%	10%	
Upper Limit	35%	35%	50%	75%	95%	

10 Principal Sums Invested Longer Than 365 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.