

PERTH AND KINROSS COUNCIL

25 February 2015

**TREASURY ACTIVITY AND COMPLIANCE REPORT
– 2014/15 QUARTER 3****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 31 December 2014 and to report on compliance with the Council's Treasury Management Policy Statement (TMPS), Treasury Management Practices (TMPs) 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 October to 31 December 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 0.7% in the three months to September 2014, slightly lower than the 0.8% in the previous quarter. Employment levels continued to recover and the unemployment rate has fallen steadily over the last year, standing at 5.8% (around 1.91 million people) by November 2014. The Consumer Price Index (CPI) measure of inflation showed a small increase to 1.3% in October (from 1.2%), before falling to 1% in November and 0.5% in December, and is significantly below the MPC's target of 2%. However, average earnings rose by 1.4% in October and 1.8% in December, ending the reduction in real earnings. Retail sales rose at a rate of 1.6% in November, equating to 6.4% on an annual basis, the fastest rate for over 10 years, as "Black Friday" discounting by retailers led to increased demand. Retail sales are expected to fall in the subsequent months.

- 2.3 Internationally, the American economy continued to improve, with increasing GDP and employment levels. However, financial markets were affected by ongoing political concerns surrounding Russia and Greece, whilst concerns about slowing economic growth in Europe, China and Japan remained. These factors, together with an increase in supply, significantly impacted the price of oil, with the price falling steadily over the quarter from over \$90 to around \$50 per barrel by the end of the quarter.
- 2.4 Economic activity indicators in the Eurozone continue to suggest that the slow economic recovery remains fragile, with GDP expanding by only 0.2% in the quarter ending 30 September 2014. Within the Eurozone, several countries recorded negative growth, however, Germany showed GDP increasing from minus 0.1% to plus 0.1%. Inflation in the Eurozone has continued to fall, from 0.3% in November to -0.2% (deflation) in December. Sovereign debt concerns also started to re-emerge in the quarter, particularly in relation to Greece. The European Central Bank (ECB) introduced a limited package of purchasing of private bonds in the last quarter, and there was growing speculation that further stimulus by purchasing Eurozone Government bonds would follow in the New Year. This was subsequently announced by the ECB at its meeting in January 2015, with a further €50billion of European Government bonds to be purchased each month commencing in March 2015.
- 2.5 The Public Works Loan Board's (PWLB) fixed interest rates, which are based on yields on UK gilts, ended the quarter lower than at the start of the quarter. However, there were periods of continued 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 2014, but following a spate of recent negative economic data, it is not now anticipated until the second half of 2015 at the earliest. 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, with a reduction in notice deposit account investments, and an increase in fixed term investments undertaken in the quarter in line with cashflow requirements and counterparty limits. A long term fixed maturity loan of £10M was borrowed from the PWLB in the quarter, for a term of 50 years at a rate of 3.22%, whilst a previously agreed interest-free loan from Salix Finance of £341K in respect of installing energy-efficient street lighting within the Capital Programme was also advanced in the quarter. There was also a repayment in the quarter of a PWLB loan of £4M which had reached its maturity date. There were two short term market loans borrowed in the quarter, for an average period of 17.5 days at 0.5%.

- 3.2 The average period for fixed term deposits made in the quarter was 167 days, reducing from the previous quarter's average period of 184 days. This reflects the placing of most deposits for between 3 and 6 months in line with counterparty limits. Those placed for longer were limited to 9 months reflecting the anticipated increase in the bank rate later in 2015, whilst lending to other local authorities was for less than one month in line with the authorities' cash requirements. The average rate achieved in the quarter for fixed deposits reduced from 0.64% in the previous quarter to 0.63%, 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 0.50% to 0.49%, 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 £64.1M compared with £62.0M 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 reduced marginally from 0.65% to 0.64%, reflecting the slightly shorter term of fixed deposits made.
- 3.5 During the quarter, a long term fixed rate loan of £10M was borrowed from the PWLB when rates had reduced to the lowest levels for the year during a period of market volatility. The term of the loan is 50 years at an interest rate of 3.22%. Whilst the Council's immediate cashflow remained positive, this loan was undertaken whilst long term rates were at very low levels, and longer term forecasts all show rates gradually increasing over the next few years. Therefore, it is anticipated this loan will give rise to annual savings in interest compared to deferring the borrowing until the date it is actually required. In addition, an interest free loan for 8 years was received from Salix Finance Ltd, who operate on behalf of various UK Government departments and the Scottish Government, to provide funding for energy efficiency schemes. The loan of £341,337 was applied to provide energy efficient street lighting within the Composite Capital Budget. There was also a long term PWLB loan of £4M which reached maturity during the quarter and so was repaid. The loan was originally borrowed for 5 ½ years at 2.95%.
- 3.6 Prior to the PWLB borrowing, there were two short-term market loans borrowed, for £5M each at 0.5%, for an average period of around 17 days. Funds held from associated bodies and organisations reduced over the quarter from £1.59M to £1.36M, in line with the Trust's own cashflow requirements. The average rate remained unchanged at 0.10%. Common Good Funds held on fixed deposit increased slightly over the quarter, from £1.71M to £1.728M whilst the average rate remained unchanged at 0.72%.

4. COMPLIANCE

- 4.1 For the quarter ending 31 December 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 January 2015.
- 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 31 December 2014 the average closing cleared bank balance, based on balances held with the Royal Bank of Scotland, was £13,190.61 (credit). This is within the set target range of £50,000 (debit or credit). The last of the Co-operative Bank accounts were closed in October 2014, and therefore the balances have not been included for this quarter.

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, £10M was borrowed during the quarter, with a further £40M borrowed in the previous quarters. By the end of December 2014, the level of investments had therefore continued to exceed the above assumption, and stood at £64.1M after peaking at £79.6M on 15 October 2014 in the current quarter.
- 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 £1,802,000, which reflects a small increase of £3,400 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 Part of the funds repaid by Glitnir in Icelandic Krona (ISK) had remained in an escrow account in Iceland in accordance with the requirements of the Icelandic Central Bank since 2012. The claim made by the Glitnir Winding Up Board is still subject to ongoing negotiations in Iceland.
- 6.2 However, the Icelandic Central Bank (ICB) held a currency auction in Iceland on 10 February 2015. As this was the last such auction to be held, the ICB advised that local authorities could use their ISK held in escrow accounts in order to participate in the auction. Successful bids to exchange ISK into Euros at the auction meant that the funds could be withdrawn from Iceland and paid into sterling bank accounts in the UK.
- 6.3 The exchange rate determined by the ICB at each auction reflects a discount on the official exchange rate. Consequently the Council received £155,350, with the funds remaining in the escrow account (due to rounding of bids) valued at around £160, and a further £800 applied to cover the auction fees. This equates to a combined loss on the ISK and Euro exchange rates of around £45,000 which is 4% of the original amount held in Iceland, and will be managed within the existing Loans Fund Budget and Capital Fund strategy. It should be noted that the funds held in Iceland have generated interest of £22,000 since 2012, compared to around £3,000 that such funds would have earned under UK interest rates. In addition, the Council has credited a further £13,000 in exchange rate gains in valuing the funds over this period. It should

also be noted that participating in the auction at this time meant that the successful bid allowed the funds to be withdrawn from Iceland without any “exit tax” being imposed, which the ICB has indicated will be introduced in future. It is anticipated that such a tax could be around 30%.

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 2014/20 approved by the Housing and Health Committee on 28 January 2015 (report 15/50 refers).
- 7.2 It can be seen that all indicators are broadly in line with expectations and all limits were complied with throughout the period. The estimates across all years on the Housing Investment Programme reflect the approved budget by the Housing & Health Committee on 28 January 2015. These figures reflect an increase of £7.4M in budgeted capital expenditure on the programme from the previous approved budget. This, together with a reduction in Revenue Contributions in each year, has resulted in an increase in the Capital Financing Requirement. In light of the additional expenditure and borrowing projections, the ratio of Financing Costs to the Net Revenue Stream shows a gradually increasing trend. However, they remain comfortably within the Prudential limits.
- 7.3 In addition, on current estimates and approved limits, it is forecast that the Operational Boundary, which measures the gross level of debt, will exceed the Authorised Limit in 2019/20. This is addressed in the Treasury Strategy 2015/16 – 2020/21 report being considered at this meeting of the Council.
- 7.4 Overall, 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. Annual earnings showed increased growth, whilst retail sales are expected to fall after peaking in November. 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 and repayment. The investment activity related to use of instant access and notice accounts, whilst more funds were placed in fixed deposits, but for shorter periods. As longer term rates continued to be volatile during the quarter, the opportunity was taken to undertake further long

term borrowing after rates had continued to fall. 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. An interest free loan was also received during the quarter, which has been applied to the installation of energy efficient street lighting within the capital programme.

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.

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Approved

Name	Designation	Date
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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

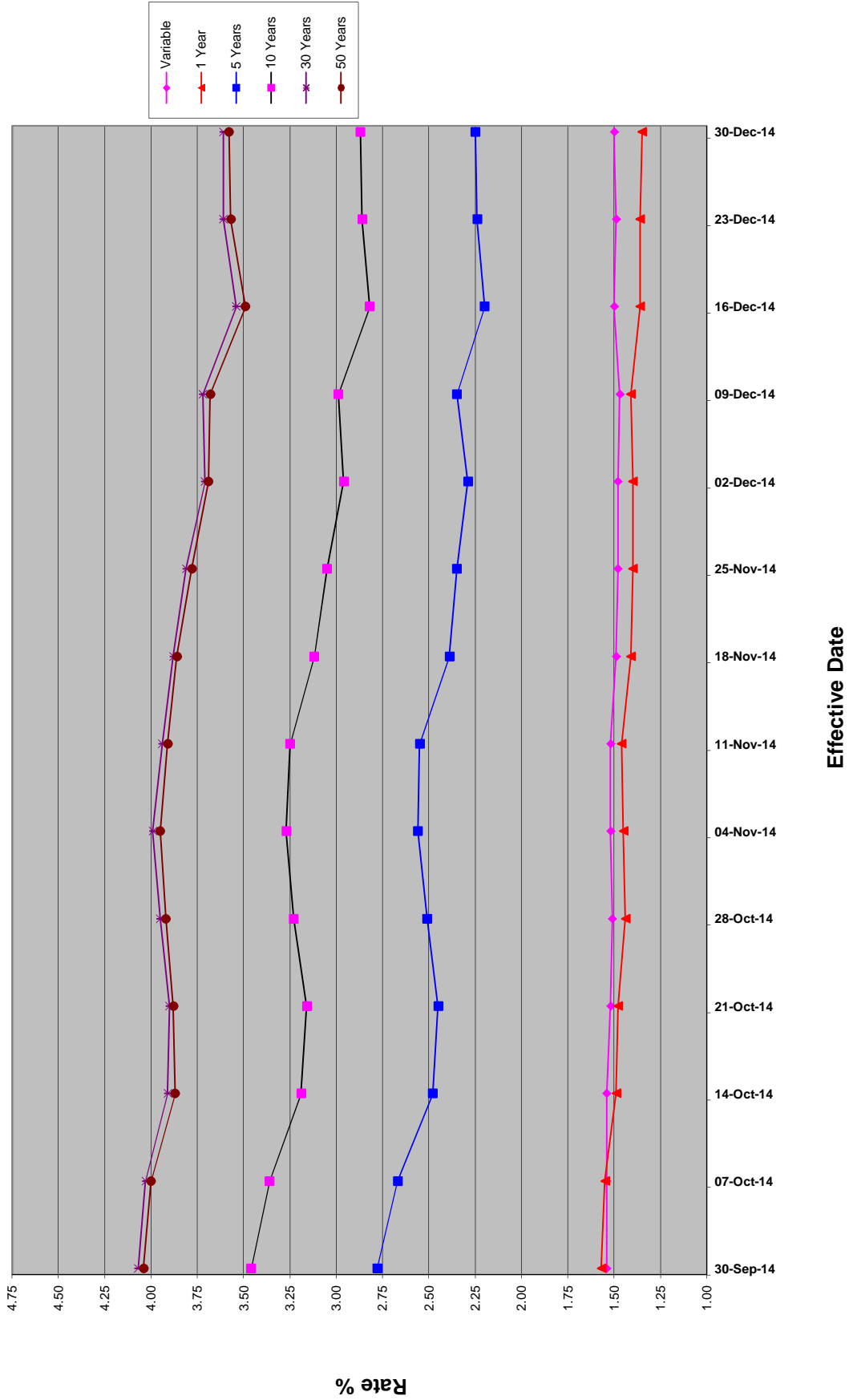
Appendix I – PWLB Fixed Maturity & Variable Interest Rates from 1 October 2014 to 31 December 2014.

Appendix II – Summary of the Treasury Position and Transactions from 1 October to 31 December 2014.

Appendix III – Approved Investment Counterparty List.

Appendix IV – Analysis of Prudential Indicators Quarter ending 31 December 2014.

**PWLB Fixed Maturity & Variable Interest Rates
From 1 October 2014 to
31 December 2014**



**SUMMARY OF THE TREASURY POSITION AND TRANSACTIONS APPENDIX II
FROM 1 OCTOBER TO 31 DECEMBER 2014**

1 INVESTMENTS

(a) Investment Transactions - 1st October to 31st December 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	3	2,500,000	0.71%	202	30,352.05
Foreign Banks and Institutions	2	3,750,000	0.54%	123	14,167.12
Building Soc/Subsidiary Banks	2	5,000,000	0.57%	140	22,873.97
Other Local Authorities	2	2,000,000	0.50%	21	1,123.29
	<u>9</u>	<u>3,500,000</u>	<u>0.63%</u>	<u>167</u>	<u>68,516.44</u>

<u>Instant/Notice Accounts</u>	<u>Average Amount (£)</u>	<u>Average Rate (%)</u>	<u>Total Interest (£)</u>
Instant Access accounts	2,474,402	0.50%	6,404.55
Money Market Funds	4,665,990	0.47%	8,220.03
	<u>3,570,196</u>	<u>0.49%</u>	<u>14,624.58</u>

(b) Investments Outstanding

	<u>Outstanding 30-Sep-14 £</u>	<u>Average Rate</u>	<u>Outstanding 31-Dec-14 £</u>	<u>Average Rate</u>
Banks	30,598,090	0.76%	31,687,507	0.73%
Foreign Banks and Institutions	12,500,000	0.54%	12,500,000	0.53%
Money Market Funds	3,900,000	0.47%	870,000	0.47%
Building Societies/Subsidiary Banks (Fixed)	10,000,000	0.55%	10,000,000	0.57%
Other Local Authorities	5,000,000	0.60%	9,000,000	0.56%
TOTAL	<u>61,998,090</u>	<u>0.65%</u>	<u>64,057,507</u>	<u>0.64%</u>

2 BORROWING

(a) Long Term Borrowing 1st October to 31st December 2014

	<u>No.</u>	<u>Average Rate (%)</u>	<u>Average Life (years)</u>	<u>Amount (£)</u>
PWLB - Maturity Loans	1	3.22%	50.0	10,000,000
Salix Finance	1	0.00%	8.0	341,337
	<u>2</u>	<u>3.11%</u>	<u>48.6</u>	<u>10,341,337</u>

(b) Long Term Debt Repayments 1st October to 31st December 2014

	<u>No.</u>	<u>Average Rate (%)</u>	<u>Amount (£)</u>
PWLB - Maturity Loan - Scheduled Repayments	1	2.95%	4,000,000
	<u>1</u>	<u>2.95%</u>	<u>4,000,000</u>

(c) Long Term Debt Outstanding

	<u>Outstanding 30-Sep-14 £</u>	<u>Average Rate</u>	<u>Outstanding 31-Dec-14 £</u>	<u>Average Rate</u>
Public Works Loan Board	188,612,548	4.09%	194,612,548	4.06%
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	0	0.00%	341,337	0.00%
TOTAL	<u>236,812,548</u>	<u>4.13%</u>	<u>243,153,885</u>	<u>4.10%</u>

**SUMMARY OF THE TREASURY POSITION AND TRANSACTIONS APPENDIX II
FROM 1 OCTOBER TO 31 DECEMBER 2014**

(d) Short Term Market Borrowing - 1st October to 31st December 2014

	<u>No.</u>	<u>Average Amount (£)</u>	<u>Average Rate (%)</u>	<u>Average Term (Days)</u>	<u>Interest (£)</u>
Short Term Market Borrowing	2	5,000,000	0.50%	17.5	2,397.26
	<u>2</u>	<u>5,000,000</u>	<u>0.50%</u>	<u>17.5</u>	<u>2,397.26</u>

(e) Short Term Local Borrowing Outstanding

	<u>Outstanding 30-Sep-14 £</u>	<u>Average Rate</u>	<u>Outstanding 31-Dec-14 £</u>	<u>Average Rate</u>
Other Local Authorities	0	0.00%	5,000,000	0.50%
Common Good Funds	1,710,000	0.72%	1,728,000	0.72%
Local Trusts & Investors	1,585,930	0.10%	1,361,149	0.10%

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	Monitoring	3 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+	Monitoring	6 months	
Commonwealth Bank of Australia	Aus	AA-, F1+	Monitoring	6 months	
Macquarie Bank Ltd	Aus	A, F1	Monitoring	3 months	
National Australia Bank Ltd	Aus	AA-, F1+	Monitoring	6 months	
Westpac Banking Corporation	Aus	AA-, F1+	Monitoring	6 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	
Danske Bank	Denmark	A, F1	Monitoring	3 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	Netherlands	AAA, F1+	No data	24 months	
Cooperative Centrale Raiffeisen Boerenleenbank	Netherlands	AA-, F1+	In range	12 Months	
ING Bank	Netherlands	A+, F1+	In range	6 Months	
Nederlandse Waterchapsbank NV (1)	Netherlands	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	Monitoring	3 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	
Wells Fargo Bank, NA	USA	AA-, F1+	In range	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>
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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
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Building Societies

Coventry Building Society	UK	A, F1	No data	3 months
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Leeds Building Society	UK	A-, F1	No data	3 months
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Nationwide Building Society	UK	A, F1	No data	6 months
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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		
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Deutsche Bank Sterling Fund	UK	AAA		
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Insight Sterling Liquidity Fund (Class 5)	UK	AAA		
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Ignis Sterling Liquidity Fund	UK	AAA		
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Aberdeen Asset Management	UK	AAA		
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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: 30-Jan-15

ANALYSIS OF PRUDENTIAL INDICATORS
- Quarter ending 31st December 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 January 2015.

	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	8.31%	8.68%	9.30%	10.04%	10.62%	10.79%	11.13%
Prudential Limit - HRA	25.00%	25.00%	25.00%	25.00%	25.00%	25.00%	25.00%
Estimated Ratio of Financing Costs to Revenue	18.76%	19.67%	20.55%	20.83%	20.55%	20.29%	19.49%

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 31-Dec-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	316,344,000	326,515,000	319,261,000	337,507,000	365,203,000	378,708,000	383,654,000	371,500,000
Capital Financing Requirement	421,065,000	417,706,000	449,431,000	502,960,000	515,957,000	510,234,000	505,302,000	490,106,000
Gross External Borrowing	380,401,000	366,515,000	354,261,000	367,507,000	390,203,000	398,708,000	403,654,000	391,500,000

ANALYSIS OF PRUDENTIAL INDICATORS
- Quarter ending 31st December 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 January 2015):

Composite Programme	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Current estimate	59,912,000	66,155,000	83,454,000	43,168,000	25,819,000	28,116,000	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	6,907,000	(3,138,000)	29,769,000	18,190,000	(3,383,000)	(1,013,000)	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 11 February 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	17,836,000	20,514,000	14,297,000	9,540,000	8,981,000	9,255,000	10,000,000
Original Budget Estimate	17,836,000	20,514,000	14,297,000	9,540,000	8,981,000	9,255,000	10,000,000
Movement in Estimated Capital Expenditure	0	0	0	0	0	0	0

The Original Budget Estimates are those used per the HRA Budget report to 2019/20 on 28 January 2015, whilst 2020/21 is included as an estimated provision.
 The latest estimates are per the Capital Monitoring approved at the Strategic Policy & Resources committee meeting on 11 February 2015.

5 Estimate of Capital Financing Requirement

The estimate (as at January 2015) 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	37,038,000	31,217,000	61,273,000	27,696,000	12,386,000	14,264,000	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	3,823,000	(13,814,000)	23,876,000	17,109,000	(3,214,000)	(763,000)	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 11 February 2014

ANALYSIS OF PRUDENTIAL INDICATORS
- Quarter ending 31st 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 Estimated Capital Financing Requirement	12,603,000	16,238,000	10,653,000	5,424,000	4,207,000	3,832,000	4,500,000
Original Budget Estimate	12,603,000	16,238,000	10,653,000	5,424,000	4,207,000	3,832,000	4,500,000
Movement in Estimated Capital Financing Requirement	0	0	0	0	0	0	0

The Original Budget Estimates are those used per the HRA Budget report to 2019/20 on 28 January 2015, whilst 2020/21 is included as an estimated provision. The latest estimates are per the Capital Monitoring approved at the Strategic Policy & Resources committee meeting on 11 February 2014

6 External Debt (Gross and Net)

External Borrowing	As at 31-Dec-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	194,612,548	189,531,903	181,370,613	203,709,323	230,548,033	243,386,743	252,725,453	245,064,163
Market Bonds	48,541,337	48,541,337	48,498,670	43,456,003	43,413,336	43,370,669	43,328,002	43,285,335
Special Loans	1,728,000	1,728,000	1,728,000	1,728,000	1,728,000	1,728,000	1,728,000	1,728,000
Temporary Loans/Other Borrowing	6,361,149	1,300,000	1,100,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
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	380,401,134	366,515,340	354,261,383	367,507,426	390,203,469	398,707,512	403,653,555	391,499,598
Short Term Investments	(64,057,507)	(40,000,000)	(35,000,000)	(30,000,000)	(25,000,000)	(20,000,000)	(20,000,000)	(20,000,000)
Long Term Investments	0	0	0	0	0	0	0	0
Total Net External Debt	316,343,627	326,515,340	319,261,383	337,507,426	365,203,469	378,707,512	383,653,555	371,499,598
Note:								
Operational Boundary	380,000,000	367,000,000	354,000,000	368,000,000	390,000,000	399,000,000	404,000,000	391,000,000
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 31st December 2014

8 Interest Rate Exposures

	Actual as at 31-Dec-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	334,111,985	325,287,340	313,233,383	321,579,426	344,275,469	352,779,512	357,725,555	345,571,598
Total Fixed Rate Investments	0	0	0	0	0	0	0	0
	334,111,985	325,287,340	313,233,383	321,579,426	344,275,469	352,779,512	357,725,555	345,571,598
Total Gross Borrowing	380,401,134	366,515,340	354,261,383	367,507,426	390,203,469	398,707,512	403,653,555	391,499,598
	87.8%	88.8%	88.4%	87.5%	88.2%	88.5%	88.6%	88.3%
Upper limit on Fixed Interest Rate Debt	100%	100%	100%	100%	100%	100%	100%	100%

	Actual as at 31-Dec-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	46,289,149	41,228,000	41,028,000	45,928,000	45,928,000	45,928,000	45,928,000	45,928,000
Total Variable Rate Investments	(64,057,507)	(40,000,000)	(35,000,000)	(30,000,000)	(25,000,000)	(20,000,000)	(20,000,000)	(20,000,000)
	(17,768,358)	1,228,000	6,028,000	15,928,000	20,928,000	25,928,000	25,928,000	25,928,000
Total Net Borrowing (including investments arising from short term cash balances)	316,343,627	326,515,340	319,261,383	337,507,426	365,203,469	378,707,512	383,653,555	371,499,598
	-5.6%	0.4%	1.9%	4.7%	5.7%	6.8%	6.8%	7.0%
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 31st December 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 (£)	9,069,622	23,569,622	41,708,865	61,310,837	198,453,041	334,111,985
% of Total Fixed Debt	2.7%	7.1%	12.5%	18.4%	59.4%	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.