

## PERTH AND KINROSS COUNCIL

Council Meeting – 3 October 2012

## TREASURY ACTIVITY AND COMPLIANCE REPORT - 2012/13 QUARTER 1

Report by the Head of Finance

**ABSTRACT:**

The purpose of this report is to provide a summary of the Loans Fund transactions for the quarter ending 30 June 2012 and to report on compliance with the Council's Treasury Management Policy Statement (TMPS), Treasury Management Practices (TMP's), Investment Strategy and the Prudential Indicators for the same period.

**1. RECOMMENDATIONS**

1.1 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. Notes the amendment to the Treasury Management Roles & Responsibilities and limitations to Authority, as detailed in paragraph 5.1 below and Appendix III to the report.
3. Notes the HM Treasury's introduction of the discount rate on PWLB loans.

**2. BACKGROUND**

2.1 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 April to 30 June 2012. 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.

**3. ECONOMIC BACKGROUND**

3.1 The Bank of England Monetary Policy Committee (MPC) kept the Bank Rate at 0.5% throughout the quarter. The MPC also maintained the quantitative easing (QE) gilt purchase programme (aimed at encouraging economic activity) at the current level, however there were indications there would be future tranches. In fact in July 2012 the QE programme was increased by £50 billion increasing the programme to a total of £375 billion. Future changes to the Bank Rate continue to remain uncertain, with some market commentary predicting a reduction to 0.25% by November 2012. However the Governor of the Bank of England has dampened such speculation.

- 3.2 Economic activity weakened over the quarter. UK retail sales fell by 0.1% in the second quarter. This was attributed to the continued constraints on consumers and the unseasonably bad weather in April and June. The rate of inflation (Consumer Price Index) continued to fall, reaching 2.4% in June, due to falling clothing and fuel prices. The labour market showed some positive indicators, as UK unemployment fell by 65,000 in the three months to May compared with the previous quarter. Pay growth remained weak.
- 3.3 House prices fell slightly, whilst both the Service and Manufacturing sectors weakened during the quarter. Gross Domestic Product (GDP) fell by 0.7% in the months April to June leaving the UK economy still in recession. This can be partly attributed to reduced activity in the construction sector and manufacturing.
- 3.4 Over the quarter the financial markets were again dominated by uncertainty associated with the economies of the euro-zone countries. The Eurozone economy as a whole contracted in the second quarter, while Eurozone unemployment rose to 11.1% in May, the highest rate since the creation of the euro in 1999.
- 3.5 The Public Works Loan Board's (PWLB) fixed interest rates, which are based on market prices and yields on UK gilts, fell slightly over the quarter and remained low for all borrowing periods. Variable rates, which generally move in line with Bank Rate expectations, remained static. Interest rate movements are shown in the graph at Appendix I.

#### **4. TREASURY ACTIVITY**

- 4.1 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 some fixed term investments for longer periods where the opportunity arose and in line with cashflow forecasts. There was also two new fixed rate PWLB loans borrowed in the quarter. There were no short term borrowing transactions undertaken during the quarter, whilst the level of funds held on temporary loan by local trusts decreased slightly over the quarter.
- 4.2 The total amount of investments increased over the quarter, closing at £62.8M compared with £40.0M at the end of the last quarter. This increase can be attributed to a combination of the new borrowing that was undertaken during the quarter and the positive cashflow early in the financial year. The average rate of interest earned on investments outstanding at the end of the quarter decreased from 1.93% to 1.69%. This can be attributed to higher balances in the notice deposit accounts which have lower rates of return as explained in paragraph 4.3 below. The average lending period to Banks and Building Societies for fixed term deposits was 206 days, increasing from the previous quarter's average period of 150 days. This was as a result of investments being taken for a longer period where cashflow permitted. Thus, the average lending rate on fixed deposits increased from 1.47% to 1.78%. This reflects increased rates being offered by banks to attract deposits on fixed terms.

- 4.3 There were also investment transactions in the quarter through the Council's instant access and notice deposit accounts. These were at an increased volume from the previous quarter, due to counterparty constraints, and to meet daily cashflow requirements. All of the above investment activities reflect the Council's current investment strategy and cashflow requirements.
- 4.4 On the 14 May 2012 there were two new fixed rate maturity PWLB loans borrowed, both for £5M. One loan, was for a period of 7.5 years at a rate of 2.51%, and the other was for 10 years at a rate of 2.97%. These loans were taken partly to replace existing loans which are due to mature within the next 12 months, and whilst rates are still low.
- 4.5 There was no temporary borrowing undertaken during the quarter. Funds held from associated bodies and organisations decreased over the quarter, from £2,303,707 to £1,939,805. The average rate remained unchanged at 0.10%.

## **5. TREASURY MANAGEMENT UPDATE**

- 5.1 The Treasury Management policy and schedules have been updated to reflect recent changes in personnel. This is shown at Appendix III.
- 5.2 In the UK Government's 2012 budget it was announced that a 20 basis points (0.2%) discount on loans from the PWLB under the prudential borrowing regime would be introduced (the "certainty rate"). A condition of this was the provision of improved information and transparency by authorities on their long term borrowing requirements and capital spending plans. The information that is required has been submitted to the PWLB and this discount should be available on PWLB borrowing from 1 November 2012.

## **6. COMPLIANCE**

- 6.1 For the quarter ending 30 June 2012, 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).
- 6.2 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 approved lending policy incorporates Sector Treasury Services' suggested maximum lending period for each counterparty. Appendix IV shows the list of approved counterparties based on the current lending policy, as at August 2012.
- 6.3 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 June 2012 the average closing cleared bank balance was £11,555.67 (credit). This is within the set target range of £50,000 (debit or credit).

## **7. INVESTMENT STRATEGY COMPLIANCE & PERFORMANCE**

- 7.1 In essence, the Treasury Investment Strategy approved by the Council for 2012/13 (Report 12/78 refers) seeks to ensure security over principal sums invested whilst obtaining optimum returns consistent with this approach. Therefore, the only Permitted Investments approved are in low risk organisations. The limits for each Permitted Investment and individual counterparty ensure a good spread of investments thereby 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 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.
- 7.2 The strategy was applied in full over the quarter with no breaches in compliance with treasury limits, whilst liquidity was maintained by use of instant access and notice deposit accounts as detailed in Section 4 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 was £10M new PWLB long term borrowing undertaken in the quarter, hence the level of investments exceeding the £50M level. However, the balance of investments is anticipated to reduce steadily over the remaining quarters.
- 7.3 There were no additional risks identified or borrowing in advance of need undertaken in the quarter.
- 7.4 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.
- 7.5 There were no Council funds, other than those relating to Charitable Trusts, held by external managers.
- 7.6 The Annual Property Investment Strategy for 2012/13 was also approved by the Council at its meeting on the 22 February 2012 (Report 12/78 refers) and is being complied with in full, with no breaches in compliance with permitted investment limits.
- 7.7 The income from the Council's property portfolio for 2011/12 was £1,987,000, this representing a reduction from the projected income figure of £2,060,000 and reflecting a loss of rental income in the present financial climate.
- 7.8 The budgeted income for 2012/13 was projected in the Annual Property Investment Strategy at £1,987,000, however this is likely to be revised downward to £1,984,000 in light of the current economic and market conditions.

- 7.9 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.

## **8 ICELANDIC BANKS**

- 8.1 Following the repayment of approximately 80% of the deposit held with Glitnir in March 2012, the remaining 20% which was paid in Icelandic Krona (ISK) still remains subject to currency restrictions in Iceland. Consequently, these funds, currency estimated at £188,000, remain in Iceland. The funds are held by an Icelandic bank in an escrow account, in accordance with the requirements of the Icelandic Central Bank, and are currently earning interest at 4.4%. Any future developments will be reported to the Council at the earliest opportunity.

## **9. PRUDENTIAL INDICATORS**

- 9.1 The Prudential Indicators for 2012-17, together with the latest estimates as at 30 June 2012, are shown at Appendix V. The following movements are worthy of note:

- Financing Costs – for both the General Fund and HRA, these show an increasing trend each year in line with interest rate projections and budgeted levels of capital investment.
- Capital Expenditure & Financing Requirement – the movements in the Capital Expenditure and Financing (Borrowing) Requirements reflect the current 2012/13 monitoring position.
- Operational Boundary – this is an estimate of the most likely level of debt (as opposed to a limit), and is reviewed each quarter. Accordingly, the operational boundary totals have been revised to reflect the latest estimated debt position and reflect only slight movements from those shown for the previous quarter.

- 9.2 It can be seen that all other indicators are in line with expectations, and all limits were complied with throughout the period, and do not require any further revision at this stage. In particular, the Council's plans remain affordable, prudent and sustainable.

## **10. CONSULTATION**

- 10.1 All treasury activities described above were undertaken in consultation with the Council's advisors, Sector Treasury Services Ltd. The Chief Executive was also consulted in the preparation of this report.

## **11. RESOURCE IMPLICATIONS**

- 11.1 There are no resource implications arising directly from this report.

## **12. COUNCIL CORPORATE PLAN OBJECTIVES 2009 - 2012**

12.1 The Council's Corporate Plan 2009-2012 lays out five Objectives which provide clear strategic direction, inform decisions at a corporate and service level and shape the resources allocation. They are as follows:

- (i) A Safe, Secure and Welcoming Environment
- (ii) Healthy, Caring Communities
- (iii) A Prosperous, Sustainable and Inclusive Economy
- (iv) Educated, Responsible and Informed Citizens
- (v) Confident, Active and Inclusive Communities

12.2 The Chief Executive's Service provides a range of functions for internal and front-line customers alike. Those functions support the work of the whole Council by assisting them in the delivery of the Council's Corporate Objectives. As a consequence, this report does not specifically relate to one of the objectives, but assists with the delivery of all five.

## **13. EQUALITIES ASSESSMENT**

13.1 The Council's Corporate Equalities Assessment Framework requires an assessment of functions, policies, procedures or strategies in relation to race, gender and disability and other relevant equality categories. This supports the Council's legal requirement to comply with the duty to assess and consult on relevant new policies to ensure there is no adverse impact on any community group or employees.

13.2 The function, policy, procedure or strategy presented in this report was considered under the Corporate Equalities Assessment Framework and the determination was made that the items summarised in this report do not require further assessment as they do not have an impact on people's wellbeing.

## **14. STRATEGIC ENVIRONMENTAL ASSESSMENT**

14.1 Strategic Environmental Assessment (SEA) is a legal requirement under the Environmental Assessment (Scotland) Act 2005 that applies to all qualifying plans, programmes and strategies, including policies (PPS). The matters presented in this report were considered under the Environmental Assessment (Scotland) Act 2005 and no further action is required as it does not qualify as a PPS as defined by the Act and is therefore exempt.

## **15. CONCLUSION**

15.1 The main activities during the quarter were the lending of surplus cashflow funds and new PWLB borrowing. A limited number of investments were made for longer periods in line with cashflow forecasts, whilst most investments were in short term call accounts and money market funds to maintain liquidity and counterparty spread. The Council adhered to its investment strategy and policies throughout the quarter.

- 15.2 The UK economic climate weakened over the quarter. Inflation reduced to 2.4% in the quarter. The Monetary Policy Committee maintained the Bank Rate throughout the quarter at 0.5% and there was no further quantitative easing, however there were indications that there may be future tranches in the coming months.
- 15.3 There were some amendments to the Treasury Policy Documents taking account of employee changes.
- 15.4 HM Treasury have introduced a discount rate on PWLB loans, effective from 1 November 2012.
- 15.5 This report also covers the monitoring of the Council's approved Prudential Indicators. Estimates have been revised to reflect the latest position on the Council's debt portfolio and Capital Budget for 2012/17 and all limits and indicators are in line with expectations.

**JOHN SYMON  
HEAD OF FINANCE**

**Contact Officers:** Treasury Management - John Jennings, extension 75564  
Property Issues – Jim Carney, extension 75952

**Background Papers:** 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.

Quarterly Report.doc, Finance, 2 High Street, Perth  
25 September 2012

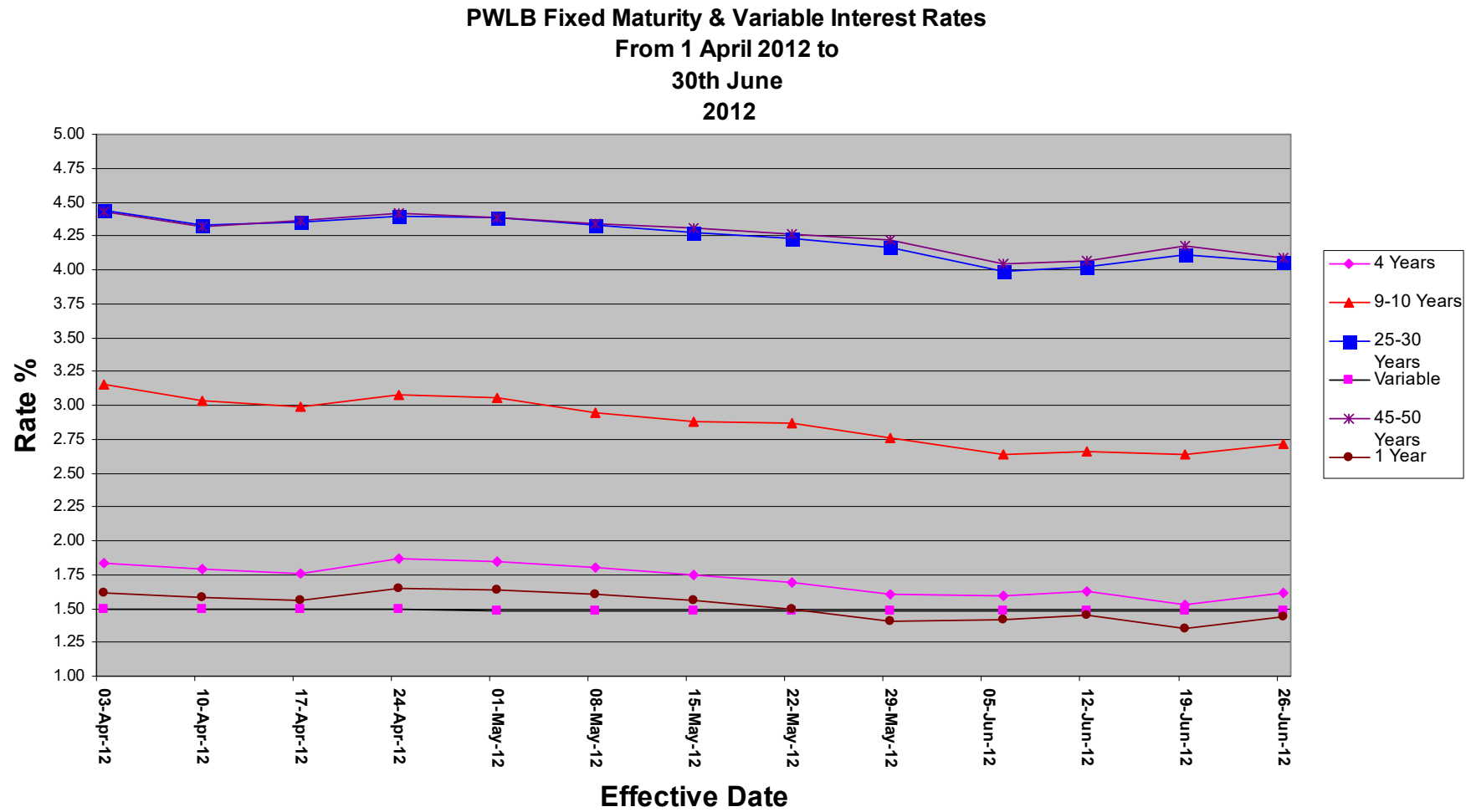
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Council Text Phone Number 01738 442573









**1 LENDING**

<b>(a) <u>Investments Outstanding</u></b>	<b>Outstanding 31-Mar-12</b>	<b>Average Rate</b>	<b>Outstanding 30-Jun-12</b>	<b>Average Rate</b>
	£		£	
Banks (Fixed Deposits)	35,000,000	2.08%	38,000,000	2.30%
Money Market Funds	5,000,000	0.88%	19,800,000	0.72%
Building Societies/Subsidiary Banks (Fixed)	0	0.00%	5,000,000	0.85%
Other Local Authorities	0	0.00%	0	0.00%
Notice Investment Accounts (Banks)	855	0.75%	0	0.75%
<b>TOTAL</b>	<b>40,000,855</b>	<b>1.93%</b>	<b>62,800,000</b>	<b>1.69%</b>

**(b) Investment Transactions - 1st April to 30th June 2012**

<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	7	2,000,000	2.13%	250	242,495.34
Building Soc/Subsidiary Banks	1	5,000,000	0.85%	92	10,712.33
<b>TOTAL</b>	<b>8</b>	<b>1,372,700</b>	<b>1.78%</b>	<b>206</b>	<b>253,207.67</b>

Instant/Notice Accounts

	<u>Average Amount (£)</u>	<u>Average Rate (%)</u>	<u>Total Interest (£)</u>
Instant Access account	1,000,171	0.75%	102.76
Tayside Fire & Rescue	36,300	0.50%	4.37
Money Market Funds	7,265,000	0.74%	32,306.70
<b>TOTAL</b>	<b>1,660,294</b>	<b>0.66%</b>	<b>32,413.83</b>

**2 BORROWING****(a) Long Term Borrowing 1st April to 30th June 2012**

	<u>No.</u>	<u>Average Rate (%)</u>	<u>Amount (£)</u>
PWLB - Maturity Loans	2	2.74%	10,000,000
	<b>2</b>	<b>2.74%</b>	<b>10,000,000</b>

**(b) Long Term Debt Repayments 1st April to 30th June 2012**

<u>No.</u>	<u>Average Rate (%)</u>	<u>Amount (£)</u>
0	0.00%	0

**(c) Long Term Debt Outstanding**

	<b>Outstanding 31-Mar-12</b>	<b>Average Rate</b>	<b>Outstanding 30-Jun-12</b>	<b>Average Rate</b>
	£		£	
Public Works Loan Board	160,015,774	4.06%	170,015,774	3.98%
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%
<b>Total</b>	<b>203,505,774</b>	<b>4.17%</b>	<b>213,505,774</b>	<b>4.10%</b>

**(d) Temporary Borrowing Outstanding**

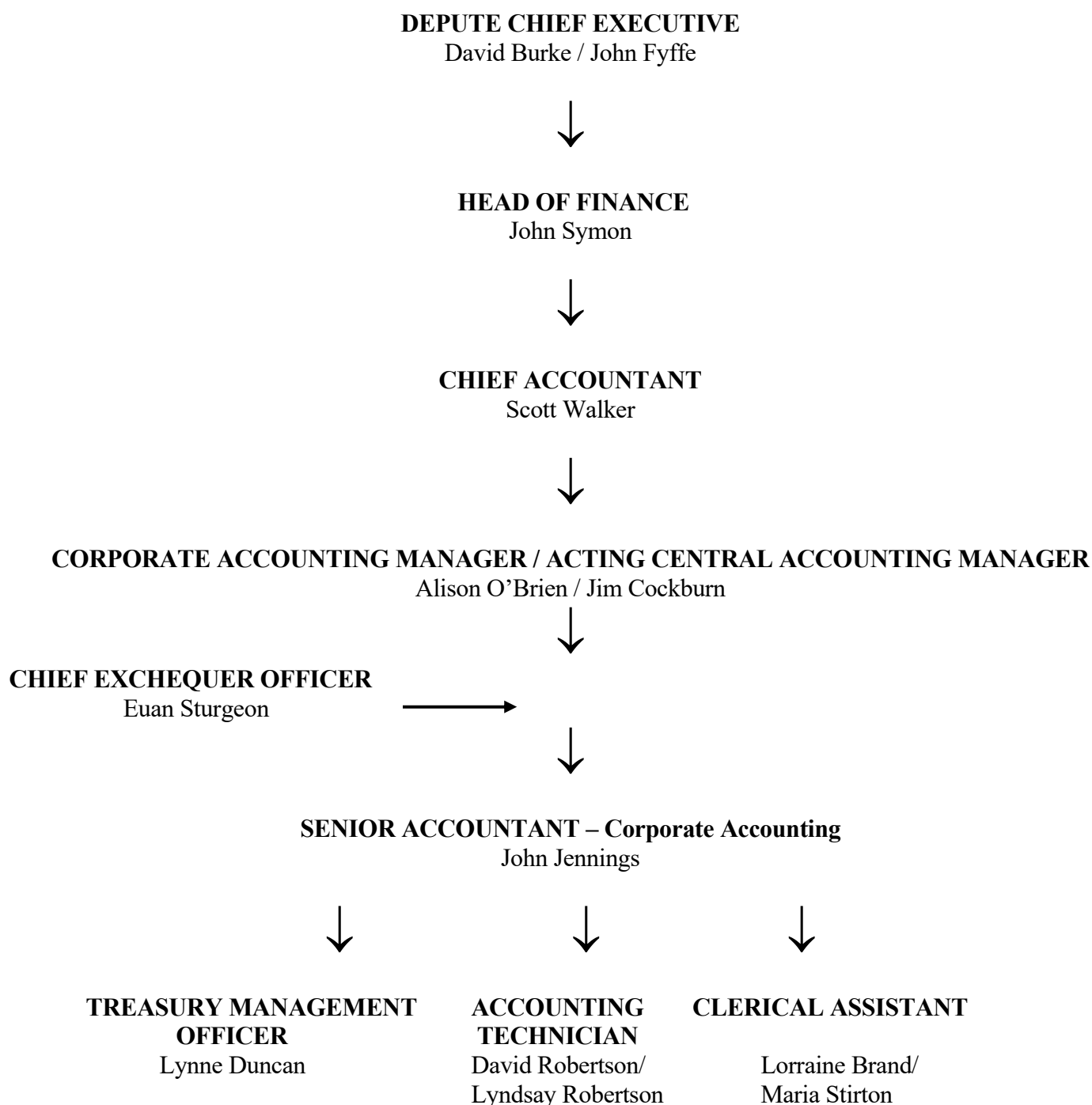
	<b>Outstanding 31-Mar-12</b>	<b>Average Rate</b>	<b>Outstanding 30-Jun-12</b>	<b>Average Rate</b>
	<u>£</u>		<u>£</u>	
Banks and Building Societies	0	0.00%	0	0.00%
Other Local Authorities and Corporations	0	0.00%	0	0.00%
Local Trusts & Investors	2,303,707	0.10%	1,939,805	0.10%
<b>TOTAL</b>	<u><u>2,303,707</u></u>	<u><u>0.10%</u></u>	<u><u>1,939,805</u></u>	<u><u>0.10%</u></u>

**(e) Temporary Borrowing - 1st April to 30th June 2012**

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

**SCHEDULE 5.2**  
***Treasury Management Organisational Chart***

The following personnel are directly involved in treasury management:



## SCHEDULE 5.3

### *Treasury Management Roles & Responsibilities*

<b><u>TITLE/NAME</u></b>	<b><u>ROLES/RESPONSIBILITIES</u></b>
<b>DEPUTE CHIEF EXECUTIVE</b> David Burke / John Fyffe	Determination of Treasury policy and strategy Ensure Organisation of Treasury Management function is effective
<b>HEAD OF FINANCE</b> John Symon	Implementing the Treasury Management Practices Systems Document Ensuring compliance with policies, limitation and directions Advising Depute Chief Executive on market trends and options for borrowing strategy Managing the overall treasury function Advise on setting and monitoring of Prudential and Treasury Indicators Review Treasury Management performance Ensure Treasury Policy and Systems Document reviewed Ensuring appropriate division and segregation of duties Determination of daily borrowing, lending and investment policy Consider and approve long –term borrowing decisions as appropriate Overall strategic responsibility as Statutory Finance Officer
<b>CHIEF ACCOUNTANT</b> Scott Walker	Assist the Head of Finance in above responsibilities Ensure day to day activities comply with the Treasury Policy Statement Ensure adequate training is provided to relevant staff Supervise activities and administration of treasury management
<b>CORPORATE ACCOUNTING MANAGER</b> Alison O'Brien	Assisting Chief Accountant in above responsibilities Daily operational management of Treasury activities Arranging Borrowing and Lending (Dealing) as required
<b>ACTING CENTRAL ACCOUNTING MANAGER</b> Jim Cockburn	Assisting Chief Accountant in above responsibilities Daily operational management of Treasury activities Arranging Borrowing and Lending (Dealing) as required
<b>CHIEF EXCHEQUER OFFICER</b> Euan Sturgeon	Authorising payments as required
<b>SENIOR ACCOUNTANT - CORPORATE ACCOUNTING</b> John Jennings	Assisting Corporate Accounting Manager in above responsibilities Ensure appropriate accounting records are maintained Supervise daily dealing and activities of Treasury Management Arranging Borrowing and Lending (Dealing) as required Administration and accounting for "Loans Fund" Prepare and monitor Prudential and Treasury Indicators Determination and projection of Loan Charges Supervise and review cashflow estimates and account reconciliations Producing regular reports on performance Monitoring performance and appointment of brokers,
<b>TREASURY MANAGEMENT OFFICER</b> Lynne Duncan	Dealing under direction and supervision Ensure proper administration of daily borrowing and lending activities Maintenance of Logotech Public Sector Treasury Management System Reconciliation of Financial Accounting ledgers to loan records Maintaining rolling 3 year cashflow estimates of the Council Production of all Management information Completion of all statistical and Government returns Supervising clerical staff involved in the Treasury function
<b>CLERICAL ASSISTANT</b> Lorraine Brand / Maria Stirton	Maintenance of manual records for internal control purposes Production of daily treasury and banking vouchers Reconciliation of broker confirmations to loan records Assisting the Treasury Management Officer as required
<b>ACCOUNTING TECHNICIAN</b> David Robertson / Lyndsay Robertson	Assist the Senior Accountant and Treasury Management Officer as required Provision of additional Treasury support in absence of key personnel

## **SCHEDULE 5.4**

### ***Treasury Management Daily Limitations to Authority***

#### **TITLE**

##### **DEPUTE CHIEF EXECUTIVE**

Delegated authority in accordance with the Financial Regulations and Scheme of Administration with particular reference to the approved Treasury Policy Statement, and consistent with current budget requirements.

##### **HEAD OF FINANCE**

Delegated authority in accordance with the Financial Regulations and Scheme of Administration with particular reference to the approved Treasury Policy Statement, and consistent with current budget requirements.

##### **CHIEF ACCOUNTANT**

Long Term Borrowing (Fixed or Variable)	up to £10 million
Temporary Borrowing } Fixed, Notice or Call with	within cashflow requirements
Temporary Investment } Approved Organisations	within approved Investment Limits
Variation of Loan Terms – in line with the above limits	

##### **CORPORATE ACCOUNTING MANAGER**

Long Term Borrowing (Fixed or Variable)	up to £5 million
Temporary Borrowing } Fixed, Notice or Call with	within cashflow requirements
Temporary Investment } Approved Organisations	within approved Investment Limits
Variation of Loan Terms - in line with the above limits	

##### **ACTING CENTRAL ACCOUNTING MANAGER**

Long Term Borrowing (Fixed or Variable)	up to £5 million
Temporary Borrowing } Fixed, Notice or Call with	within cashflow requirements
Temporary Investment } Approved Organisations	within approved Investment Limits
Variation of Loan Terms - in line with the above limits	

##### **CHIEF EXCHEQUER OFFICER**

Temporary Borrowing } Fixed, Notice or Call with	within cashflow requirements
Temporary Investment } Approved Organisations	within approved Investment Limits
Variation of Loan Terms - in line with the above limits	

##### **SENIOR ACCOUNTANT – CORPORATE ACCOUNTING**

Long Term Borrowing – Under instruction of above officers, within their appropriate limitations to authority.	
Temporary Borrowing } Fixed, Notice or Call with	within cashflow requirements
Temporary Investment } Approved Organisations	within approved Investment Limits
Variation of Loan Terms - in line with the above limits	

##### **TREASURY MANAGEMENT OFFICER**

Long Term Borrowing – Under instruction of above officers, within their appropriate limitations to authority.	
Temporary Borrowing } Fixed, Notice or Call with	within cashflow requirements
Temporary Investment } Approved Organisations	within approved Investment Limits
Variation of Loan Terms - in line with the above limits	

##### **ACCOUNTING TECHNICIAN**

Temporary Borrowing } Fixed, Notice or Call with	within cashflow requirements
Temporary Investment } Approved Organisations	within approved Investment Limits
Variation of Loan Terms - in line with the above limit.	





**PERTH AND KINROSS COUNCIL**  
**APPROVED INVESTMENT COUNTERPARTY LIST**

**APPENDIX IV**

	<u>Country</u>	<u>Credit Rating</u>	<u>CDS Range</u>	<u>Maximum Lending</u>	<u>Note</u>
<b>Category 1 - Principal UK Clearing Banks - max £10M per Counterparty unless semi-nationalised max £20M</b>					
(Minimum rating required Fitch A, F1)					
Barclays Bank plc	UK	AA-, F1+	In range	3 months	
Lloyds Banking Group plc (incl HBOS and Bank Of Scotland) (1)	UK	AA-, F1+	Nationalised	12 months	Individual limit £20M
HSBC Bank plc	UK	AA, F1+	In range	3 months	
Royal Bank of Scotland plc (1)	UK	AA-, F1+	Nationalised	12 months	Individual limit £20M
Standard Chartered Bank	UK	AA-, F1	In range	3 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	3 months	
Commonwealth Bank of Australia	Aus	AA, F1+	In Range	3 months	
National Australia Bank Ltd	Aus	AA, F1+	In Range	3 months	
Westpac Banking Corporation	Aus	AA, F1+	In Range	3 months	
Bank of Montreal	Can	AA-, F1+	No data	3 months	
Bank of Nova Scotia	Can	AA-, F1+	No data	3 months	
Canadian Imperial Bank of Commerce	Can	AA-, F1+	No data	3 months	
National Bank of Canada	Can	A+, F1	No data	3 months	
Royal Bank of Canada	Can	AA-, F1+	No data	3 months	
Toronto Dominion Bank	Can	AA-, F1+	No data	3 months	
Nordea Bank Finland plc	Finland	AA-, F1+	No data	3 months	
BNP Paribas	France	AA-, F1+	In Range	1 months	Sovereign Rating AA+
Credit Industriel et Commercial	France	AA-, F1+	No data	1 months	Sovereign Rating AA+
Deutsche Bank AG	Germany	AA-, F1+	In Range	3 months	
DZ Bank AG	Germany	A+, F1+	No data	3 months	
Landesbank Berlin AG	Germany	AA-, F1+	No data	3 months	
Landwirtschaftliche Rentenbank	Germany	AAA, F1+	No data	3 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	3 months	
Clearstream Banking	Luxemburg	AA, F1+	No data	3 months	
Bank Nederlandse Gemeenten	Netherland	AAA, F1+	No data	3 months	
Co-operatieve Centrale Raiffeisen	Netherland	AA+, F1+	In Range	3 months	
ING Bank NV	Netherland	A+, F1+	In Range	3 months	
DnB NOR Bank	Norway	A+, F1	No data	3 months	
DBS Bank Limited	Singapore	AA-, F1+	In Range	3 months	
Oversea-Chinese Banking Corp Ltd	Singapore	AA-, F1+	In Range	3 months	
United Overseas Bank Ltd	Singapore	AA-, F1+	In Range	3 months	
Nordea Bank AB	Sweden	AA-, F1+	In Range	3 months	
Skandinaviska Enskilda Banken AB	Sweden	A+, F1	In Range	3 months	
Swedbank AB	Sweden	A, F1	In Range	3 months	
Svenska Handelsbanken AB	Sweden	AA-, F1+	In Range	3 months	
Credit Suisse	Switzerland	AA-, 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	AA-, 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	AA-, F1+	In Range	3 months	
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**Category 4 - Other Local Authorities - max £10M per Counterparty**

As arranged

**PERTH AND KINROSS COUNCIL  
APPROVED INVESTMENT COUNTERPARTY LIST**

**APPENDIX IV**

	<u>Country</u>	<u>Credit Rating</u>	<u>CDS Range</u>	<u>Maximum Lending</u>	<u>Note</u>
<b><u>Category 5 Money Market Funds - max £10M per Counterparty</u></b>					
(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: 25-Sep-12

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Appendix V

**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 historical levels, and allow some headroom for movement in interest rates. The estimated Financing Costs below are based on monitoring figures as at July 2012.

	<u>2012/13</u>	<u>2013/14</u>	<u>2014/15</u>	<u>2015/16</u>	<u>2016/17</u>
Prudential Limit - General Fund	12.50%	12.50%	12.50%	12.50%	12.50%
Estimated Ratio of Financing Costs to Revenue	8.24%	8.14%	8.67%	9.24%	9.68%
Prudential Limit - HRA	25.00%	25.00%	25.00%	25.00%	25.00%
Estimated Ratio of Financing Costs to Revenue	18.41%	19.11%	20.57%	21.46%	22.15%

**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>2012/13</u>	<u>2013/14</u>	<u>2014/15</u>	<u>2015/16</u>	<u>2016/17</u>
	£	£	£	£	£
Council Tax (Band D equivalent annual increase)	0.00	0.00	0.00	0.00	0.00
Housing Rent (average weekly increase)	0.00	1.15	1.17	1.19	1.22

**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-Jun-12</u>	<u>Projected 31-Mar-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>
Net External Borrowing	285,523,393	307,248,717	336,758,490	361,701,271	380,687,697	394,642,389
Capital Financing Requirement	386,368,680	424,914,961	445,177,554	449,463,980	449,675,922	454,525,481

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Appendix V

**4 Estimates of Capital Expenditure**

The total estimated Capital Expenditure contained within the Council's Budgets for each year is as follows (as at July 2012):

	<u>2012/13</u>	<u>2013/14</u>	<u>2014/15</u>	<u>2015/16</u>	<u>2016/17</u>
<u>Composite Programme</u>					
Current estimate	45,400,000	62,268,000	49,178,000	28,355,000	33,056,000
Original Budget Estimate	52,846,000	55,745,000	42,852,000	22,167,000	43,773,000
Movement in Estimated Capital Expenditure	<u>(7,446,000)</u>	<u>6,523,000</u>	<u>6,326,000</u>	<u>6,188,000</u>	<u>(10,717,000)</u>

The above movements represent movements on various schemes, from Capital Budget Report on 9 February 2012.

	<u>2012/13</u>	<u>2013/14</u>	<u>2014/15</u>	<u>2015/16</u>	<u>2016/17</u>
<u>PPP Programme</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>

	<u>2012/13</u>	<u>2013/14</u>	<u>2014/15</u>	<u>2015/16</u>	<u>2016/17</u>
<u>HRA</u>					
Current estimate	14,016,000	13,305,000	12,736,000	12,096,000	9,437,000
Original Budget Estimate	12,549,000	13,248,000	12,786,000	12,096,000	9,437,000
Movement in Estimated Capital Expenditure	<u>1,467,000</u>	<u>57,000</u>	<u>(50,000)</u>	<u>0</u>	<u>0</u>

The above movements represent movements on various schemes from Capital Budget report on 9 February 2012.

**5 Estimate of Capital Financing Requirement**

The estimate (as at July 2012) of the Capital Financing Requirement (ie new borrowing requirement for Capital Expenditure) for each year based on these plans is as follows:

	<u>2012/13</u>	<u>2013/14</u>	<u>2014/15</u>	<u>2015/16</u>	<u>2016/17</u>
<u>Estimate of Capital Financing Requirement (for the year)</u>					
<u>Composite Programme</u>					
Current Estimated Capital Financing Requirement	30,770,000	41,408,000	28,834,000	15,088,000	15,206,000
Original Budget Estimate	35,950,000	35,567,000	21,690,000	7,900,000	25,923,000
Movement in Estimated Capital Financing Requirement	<u>(5,180,000)</u>	<u>5,841,000</u>	<u>7,144,000</u>	<u>7,188,000</u>	<u>(10,717,000)</u>

The above movements represent movements on various schemes, from the Capital Budget Report on 9 February 2012.

	<u>2012/13</u>	<u>2013/14</u>	<u>2014/15</u>	<u>2015/16</u>	<u>2016/17</u>
<u>PPP Programme</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>

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	<u>2012/13</u>	<u>2013/14</u>	<u>2014/15</u>	<u>2015/16</u>	<u>2016/17</u>
<b>HRA</b>					
Current Estimated Capital Financing Requirement	9,817,000	9,275,000	8,210,000	7,379,000	4,423,000
Original Budget Estimate	<u>9,089,000</u>	<u>9,218,000</u>	<u>8,260,000</u>	<u>7,379,000</u>	<u>4,423,000</u>
Movement in Estimated Capital Financing Requirement	<u>728,000</u>	<u>57,000</u>	<u>(50,000)</u>	<u>0</u>	<u>0</u>

The above movements represent movements on various schemes from Capital Budget report on 9 February 2012.

**6 External Debt (Gross)**

	<b>As at 30-Jun-12</b>	<b>Projected 31-Mar-13</b>	<b>Projected 31-Mar-14</b>	<b>Projected 31-Mar-15</b>	<b>Projected 31-Mar-16</b>	<b>Projected 31-Mar-17</b>
<b>External Borrowing</b>						
Public Works Loan Board	170,015,774	182,041,098	210,773,808	234,759,338	257,788,513	271,743,205
Market Bonds	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
Temporary Loans/Other Borrowing	1,939,805	1,639,805	1,139,805	839,805	539,805	539,805
Other Long Term Liabilities	132,877,813	132,877,813	129,154,876	125,412,127	121,669,378	121,669,378
<b>Total Gross External Debt</b>	<u>348,323,393</u>	<u>360,048,717</u>	<u>384,558,490</u>	<u>404,501,271</u>	<u>423,487,697</u>	<u>437,442,389</u>
Short Term Investments	(62,800,000)	(52,800,000)	(47,800,000)	(42,800,000)	(42,800,000)	(42,800,000)
Long Term Investments	0	0	0	0	0	0
<b>Total Net External Debt</b>	<u>285,523,393</u>	<u>307,248,717</u>	<u>336,758,490</u>	<u>361,701,271</u>	<u>380,687,697</u>	<u>394,642,389</u>
<b>Note:</b>						
Operational Boundary	349,000,000	361,000,000	385,000,000	405,000,000	424,000,000	438,000,000
Authorised Limit	449,000,000	449,000,000	449,000,000	449,000,000	449,000,000	449,000,000

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)

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**8 Interest Rate Exposures**

	<b>Actual as at 30-Jun-12</b>	<b>Projected 31-Mar-13</b>	<b>Projected 31-Mar-14</b>	<b>Projected 31-Mar-15</b>	<b>Projected 31-Mar-16</b>	<b>Projected 31-Mar-17</b>
<u>Fixed Interest Rate Debt</u>						
Total Fixed Rate Borrowing	308,183,587	320,208,911	345,218,684	365,461,465	384,747,891	398,702,583
Total Fixed Rate Investments	0	0	0	0	0	0
	<u>308,183,587</u>	<u>320,208,911</u>	<u>345,218,684</u>	<u>365,461,465</u>	<u>384,747,891</u>	<u>398,702,583</u>
Total Gross Borrowing	348,323,393	360,048,717	384,558,490	404,501,271	423,487,697	437,442,389
	<u>88.5%</u>	<u>88.9%</u>	<u>89.8%</u>	<u>90.3%</u>	<u>90.9%</u>	<u>91.1%</u>
Upper limit on Fixed Interest Rate Debt	100%	100%	100%	100%	100%	100%
 <u>Variable Interest Rate Debt</u>						
	<b>Actual as at 30-Jun-12</b>	<b>Projected 31-Mar-13</b>	<b>Projected 31-Mar-14</b>	<b>Projected 31-Mar-15</b>	<b>Projected 31-Mar-16</b>	<b>Projected 31-Mar-17</b>
Total Variable Rate Borrowing	40,139,805	39,839,805	39,339,805	39,039,805	38,739,805	38,739,805
Total Variable Rate Investments	(62,800,000)	(52,800,000)	(47,800,000)	(42,800,000)	(42,800,000)	(42,800,000)
	<u>(22,660,195)</u>	<u>(12,960,195)</u>	<u>(8,460,195)</u>	<u>(3,760,195)</u>	<u>(4,060,195)</u>	<u>(4,060,195)</u>
Total Net Borrowing (including investments arising from short term cash balances)	285,523,393	307,248,717	336,758,490	361,701,271	380,687,697	394,642,389
	<u>-7.9%</u>	<u>-4.2%</u>	<u>-2.5%</u>	<u>-1.0%</u>	<u>-1.1%</u>	<u>-1.0%</u>
Upper limit on Variable Interest Rate Debt	35%	35%	35%	35%	35%	35%

**9 Maturity Structure**

The maturity structure for the Council's fixed rate debt, as at 30th June 2012, measured from the start of the financial year is as follows:

	<u>&lt; 12 mths</u>	<u>12&lt;24 mths</u>	<u>2&lt;5 years</u>	<u>5&lt;10 years</u>	<u>Over 10 years</u>
Total Debt Maturing (£)	17,091,474	16,884,229	40,312,809	67,581,197	169,954,062
% of Total Fixed Debt	5.5%	5.4%	12.9%	21.7%	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.