

**WEST DUNBARTONSHIRE COUNCIL**  
**Report by Strategic Lead, Resources**  
**Alexander Cross Cameron Fund Committee**  
**14 February 2022**

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**Subject: Ongoing Investment Options for ACC Trust Fund Balance**

**1. Purpose**

- 1.1** The purpose of this report is to provide information on how investment options agreed for Alexander Cross Cameron Trust Fund balances have performed in the period since approval was given on 19 February 2020 and to provide a recommended approach for continuing investment.

**2. Recommendations**

- 2.1** The Committee is asked to agree that £0.020m is invested with the Council in a variable rate account with the remainder of the Fund balance (currently £0.097m) to be invested with the Council in a 2 year fixed rate deposit account.

**3. Background**

- 3.1** Historically, funds held by the Trust were invested with the Council based upon the annual variable rate of investments achieved by the Council (for 2019/20 this was approximately 0.75% and for £0.100m this is equivalent to £750 per annum).
- 3.2** At the meeting of Alexander Cross Cameron Committee on 19<sup>th</sup> February 2020 Members agreed to invest £0.020m of the Trust Fund balance in a variable rate account with the remainder invested with the council in a 2 year fixed rate deposit account. This loan is due to be repaid on 18 February 2022 and as such consideration is required to the Investment Strategy over the next few years.
- 3.3** Per the audited Financial Statements, the value of Fund as at 31 March 2021 was £0.117m. No grants have been awarded to date since 31 March 2021, therefore the balance of £0.117m currently remains.
- 3.4** Over the last three financial years the level of grant funding approved from the Fund has been:

- 2019/20 £0.007m;
- 2020/21 £0.000m; and
- 2021/22 £0.000m to date.

**3.5** For information, the current investment policy as agreed on 19 February 2020 accrued £2,138.26 in interest in 2020/21 (included in the above figure). This was based upon a fixed rate of 2.52% and a variable rate of 0.252% during that period.

#### **4. Main Issues**

##### Investment options for the Trust Fund Balance

**4.1** For comparison purposes, current borrowing/ investment interest rates are noted below. It is worth noting that these rates can be volatile and may change before the Committee makes the decision:

	<b>per annum</b>
Other short term variable (Bank Base Rate)	0.25%
1 month fixed	0.35%
6 month fixed	0.65%
12 month fixed	0.90%
2 year fixed	1.76%
5 years fixed	1.90%

**4.2** At present, both long and short term interest rates are forecast to increase slowly over the next few years. Due to the current uncertainty around the not only the UK economy and the EU exit, but also the world economy, long and short term interest rates remain at historically low levels and may be prone to additional volatility. Due to the forecast, Members should be aware that agreeing an investment to be locked in for a longer period of time now may have short term benefits but may have a detrimental impact in the longer term if interest rates increase during the fixed period.

**4.3** Any investment strategy requires to ensure that there is enough flexibility to change the strategy if required, due to unforeseen changes in circumstances, such as additional grant funding being paid out.

**4.4** The main options available to the Trust are set out with pros and cons in Appendix 1. A comparison of the current investment interest gain on each option is noted below.

	<b>Interest Rate</b>	<b>Annual Interest per £100k</b>
Leave with the Council – interest bearing account (taken at the higher rate)	0.27%	£270
Invest with current bankers for a fixed period (new accounts / arrangement) gross:		
12 months fixed	0.30%	£300
2 years fixed	0.40%	£400
Lend to Council on a short term flexible basis with variable interest:		
1 month fixed - current	0.35%	£350
Lend to the Council on a short/ medium or longer term fixed basis:		
6 or	0.65%	£650
12 months (Council can achieve this from the private market)	0.90%	£900
2 years	1.76%	£1,760
5 years	1.90%	£1,900

**4.5** The Committee is asked to agree that £0.020m continues to be invested for a period of 2 years (with a 2 year fixed interest rate), with the remainder of the Fund balance invested with the Council in a variable rate account. Members should note that if a fixed term investment is agreed there would be no access to the balance of any loan fixed for the 2 year period. Therefore Members require to be agreed on an investment amount ensuring an adequate working balance remaining available over the period of the fixed loan.

## **5. Option Appraisal**

**5.1** The table at 4.4 provides details of options available and the financial impact of each of these options and appendix 1 provides some commentary on the pros and cons of these options.

## **6. People Implications**

**6.1** There are no people implications.

## **7. Financial Implications**

7.1 Other than the financial implications of the investment chosen as detailed above, there are no other financial implications arising from this report.

## 8. Risk Analysis

8.1 The Committee must consider financial and reputational risks when considering such an investment. Alexander Cross Cameron Fund must continue to have access to sufficient funds to meet the level of grant awards expected during the investment period.

8.2 Interest rates are volatile, changing daily and may increase during any fixed period loan, resulting in less interest than what may have been achieved locking in at alternative dates.

## 9. Equalities Impact Assessment (EIA)

9.1 No issues were identified in a screening of applications.

## 10. Environmental Sustainability

10.1 No environmental sustainability issues require to be raised in connection with this report.

## 11. Consultation

11.1 Finance and Legal have been consulted prior to finalising this report.

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Date: 28 January 2022

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**Appendices:** Appendix 1:Details of investment options

**Background Papers:** None

**Wards Affected:** Ward 4, 5 and 6

**Comparison of investment options**

General – please consider these factors with all options given:

- |     |                       |   |
|-----|-----------------------|---|
| (1) | Fixed rate loans      | If Bank Base Rate (BBR) decreases, investment income will not fall<br>If BBR increases, investment income will not increase                             |
| (2) | Variable rate loans   | If BBR increases, investment income will also increase<br>If BBR decreases, investment income will also decrease  |
| (3) | Fixed period loans    | Possibly better interest rates than variable period loans<br>Funds cannot normally be returned if required before the maturity period (by either party) |
| (4) | Variable period loans | Timing of return of funds is flexible / liquid (normally from both parties)<br>Possibly lower interest rates than for fixed maturities                  |

<b>Description of the investment options</b>	<b>Advantages</b>	<b>Disadvantages</b>
Leave in an interest bearing account with the Clydesdale Bank – interest rate matches bank base rate – variable rate & variable period	<ul style="list-style-type: none"> <li>• Can be used short term and is flexible</li> <li>• Can normally lend to any value</li> <li>• Used already – easy to use, instant results (monthly payment of interest)</li> <li>• Type of lender assures risk of default is low</li> <li>• Easier access to cashflow funds</li> </ul>	<ul style="list-style-type: none"> <li>• Better interest rates may be gained elsewhere</li> <li>• Income gained is limited to interest</li> </ul>
Lend to the Clydesdale Bank for a fixed period (or an alternative	<ul style="list-style-type: none"> <li>• Can be used short/ medium term</li> </ul>	<ul style="list-style-type: none"> <li>• Better interest rates may be gained elsewhere</li> </ul>

<p>borrower from another 'High Street bank' with better interest rates may be available)</p>	<ul style="list-style-type: none"> <li>• Can normally lend to any value</li> <li>• Easy to use, instant results</li> <li>• Type of lender assures risk of default is low</li> </ul>	<ul style="list-style-type: none"> <li>• Income gained is limited to interest</li> </ul>
<p>Lend on the market to local authorities &amp; rated banks – in line with the Council investment strategy. This is usually used for short term (up to 1 year) and can be fixed or variable in rate and maturity.</p>	<ul style="list-style-type: none"> <li>• Can be used short term and there are flexible options available</li> <li>• Quick to set up to use</li> <li>• Type of lender assures risk of default is low</li> <li>• Easy to use, instant results</li> </ul>	<ul style="list-style-type: none"> <li>• Better interest rates may be gained elsewhere</li> <li>• The lending values are usually minimum £0.500m</li> <li>• Brokerage fees would be due (0.1% per annum of the loan value)</li> <li>• Income gained is limited to interest</li> <li>• More detailed Strategy is required to identify acceptable counterparties</li> <li>• Possible changes in specific banking conditions results in additional monitoring &amp; possibly urgent approvals for changes in strategy</li> </ul>
<p>Lend to the Council on a short term flexible basis (interest gained per the councils average investment interest rate)</p>	<ul style="list-style-type: none"> <li>• Can be used short term and there are flexible options available (transferred back immediately) and to any value</li> </ul>	<ul style="list-style-type: none"> <li>• Better interest rates may be gained elsewhere – interest rate gain possibly below BBR</li> <li>• Income gained is limited to interest</li> </ul>

	<ul style="list-style-type: none"> <li>• Quick to set up to use – easy to use, instant results</li> <li>• Risk of default in minimal</li> </ul>	
Lend to the Council on a fixed basis – short / medium or longer term. Fixed time period & interest rate are set at the outset, rate based upon what the Council could borrow from the Bank of England at for that time period	<ul style="list-style-type: none"> <li>• Can be used for a variety of time periods and to any value</li> <li>• Interest rates can be better than on a variable term</li> <li>• Quick to set up to use – easy to use, instant results</li> <li>• Risk of default in minimal</li> </ul>	<ul style="list-style-type: none"> <li>• Interest rate is fixed and if rates increase, no gain is made during the fixed period</li> <li>• Income gained is limited to interest</li> </ul>
Consider the use of an investment portfolio manager – e.g. Barclay’s Wealth Investment – the investment would be locked into a portfolio of stocks and shares	<ul style="list-style-type: none"> <li>• Rates of return may be higher – dividend and profit on sale of shares</li> <li>• Diversification of purchase in different types of shares is available</li> <li>• Once set up, the use of the service is relatively straightforward and can be flexible (on purchase/sales)</li> </ul>	<ul style="list-style-type: none"> <li>• External manager would be required – additional costs would be associated with the management of this.</li> <li>• Investment is not as flexible/ liquid as other options</li> <li>• Loss on sale of shares &amp; therefore loss of funds is possible</li> <li>• Value of the portfolio would be volatile</li> <li>• The risk of default is possibly higher, depending on the fund</li> </ul>

