

WEST DUNBARTONSHIRE COUNCIL
Report by Strategic Lead, Resources
Alexander Cross Cameron Fund Committee
19 February 2020

Subject: Investment Options for ACC Trust Fund Balance

1. Purpose

- 1.1** The purpose of this report is to provide information on investment options for Alexander Cross Cameron Trust Fund balances and to provide a recommended approach.

2. Recommendations

- 2.1** The Committee is asked to agree that each year £0.020m of the Fund balance is invested with the Council in a variable rate account and the remainder invested with the Council in for 2 year fixed deposit.

3. Background

- 3.1** At the meeting of Alexander Cross Cameron Committee on 11th December 2019 Members requested information regarding investment options for the Trust Fund balance.
- 3.2** Currently, the funds held by the Trust are invested with the Council based upon the annual variable rate of investments achieved by the Council (for 2019/20 this is approximately 0.75% (for £0.100m this is equivalent to £750 per annum).
- 3.3** Per the Financial Statements, the value of Fund as at 31 March 2019 was £0.120m. Since 31 March 2019 three grants totalling £0.005m have been awarded with one grant recommended at this Committee (£0.002m), therefore (assuming the recommendation is agreed) a balance of £0.113m currently remains.

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 expected that if the Trust was to invest the funds differently. It is worth noting that these rates can be volatile:

	per annum
Other short term variable (Bank Base Rate)	0.75%
1 month fixed	0.60%
6 month fixed	0.80%
12 month fixed	0.80%
2 year fixed	2.27%
5 years fixed	2.20%

- 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 in the future.
- 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.

	Interest Rate	Annual Interest per £100k
Leave with the Council – interest bearing account (taken at the higher rate)	0.75%	£750
Invest with current bankers for a fixed period (new accounts / arrangement) gross:		
12 months fixed	1.60%	£1,600
2 years fixed	1.81%	£1,810
Lend to Council on a short term flexible basis with variable interest:		
1 month fixed - current	0.60%	£600
Lend to the Council on a short/ medium or longer term fixed basis:		
6 or 12 months (Council can achieve this from the private market)	0.80%	£800
2 years	2.27%	£2,270
5 years	2.20%	£2,200

4.5 Over the last three financial years the level of grant funding approved from the Fund has been:

- 2019/20 £0.007m;
- 2018/19 £0.029m; and
- 2017/18 £0.007m.

4.6 The Committee is asked to agree that each year £0.020m of the Fund balance is invested with the Council in a variable rate account and the remainder invested with the Council in for 2 year fixed deposit. 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 without incurring a penalty. 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.

Stephen West
Strategic Lead, Resources
Date: 19 February 2020

Person to Contact: Adrian Gray, Business Unit Finance Partner,
Corporate Functions
Telephone: (01389) 737838
E-mail: adrian.gray@west-dunbarton.gov.uk

Appendices: Appendix: 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
If BBR increases, investment income will not increase |
| (2) | Variable rate loans | If BBR increases, investment income will also increase
If BBR decreases, investment income will also decrease |
| (3) | Fixed period loans | Possibly better interest rates than variable period loans
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)
Possibly lower interest rates than for fixed maturities |

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

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

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