

PERTH AND KINROSS COUNCIL

Finance & Resources Committee

15 June 2022

**TREASURY ACTIVITY AND COMPLIANCE REPORT
2021/22 QUARTER 4**

Report by the Head of Finance
(Report No 22/122)

1. PURPOSE

- 1.1 The purpose of this report is to update the Committee on the Treasury Activity for the quarter ending 31 March 2022 and to report on compliance with the Council's Treasury Management Policy Statement (TMPS); Investment Strategy and Prudential Indicators. This report covers the fourth quarter of the financial year for the period 1 January to 31 March 2022.

2. RECOMMENDATIONS

- 2.1 It is recommended that the Committee notes the content of this report, which is submitted in accordance with the Council's approved Treasury Management Practices.

3. ECONOMIC BACKGROUND

- 3.1 The Bank of England's Monetary Policy Committee (MPC) increased the UK Bank Base Rate from 0.25% to 0.50% at its meeting on 4 February 2022. They also commenced reducing the Quantitative Easing programme. On the 17 March 2022, the MPC increased the base rate further to 0.75. The increases in the Bank Base Rate were mainly in response to rising inflation pressures, including from increased energy bills and food costs, as well as the economic impact of the conflict in Ukraine. UK Gross Domestic Product (GDP) increased by 0.8% over the quarter to March 2022, however the rate of growth has slowed in recent months.
- 3.2 At its Meeting in May 2022, the MPC increased the Bank Rate further to 1%. This was in response to global inflationary pressures intensifying and the deterioration in the outlook for economic growth, particularly following Russia's invasion of Ukraine and Covid-19 restrictions being reintroduced in China affecting supply chains. Consequently, the MPC's expectations is for UK inflation to exceed 10% by the end of the current financial year. Based on the Bank of England's most recent forecast, it is anticipated that there will be further increases in the Bank Rate to around 2.5% by mid-2023, with inflation returning to its 2% target level by 2024. The increase in the outlook for inflation has also resulted in long-term yields rising significantly.

- 3.3 Internationally, economic data from both Europe and the US similarly also indicated rising inflation as a result of the invasion of Ukraine and rising energy costs.
- 3.4 The Public Works Loan Board's (PWLB) certainty fixed interest rates for the quarter, which are based on yields on UK gilts, are shown in the graph at Appendix I. PWLB borrowing rates showed significant volatility over the quarter due to the conflict in Ukraine and inflationary pressures. All durations of rates increased over the quarter due to the impact of the two base rate increases and increasing inflationary expectations.

4. TREASURY ACTIVITY

- 4.1 A summary of the Council's treasury position and transactions is shown at Appendix II. The main activities are detailed below.
- 4.2 During the quarter there was no new long-term PWLB borrowing undertaken, whilst there was the repayment of one maturing PWLB fixed-rate loan of £7.5 million at 1.40% which had been borrowed for 5 years.
- 4.3 Over the quarter the Council's total long-term debt decreased from £618.8 million at an average interest rate of 2.55% to £611.3 million at an average interest rate of 2.56%. There was one short-term loan borrowed in the quarter to manage daily cashflows, for £3 million at 0.08% for 2 weeks, and which was repaid by the end of the quarter.
- 4.4 Common Good and Charitable Fund balances held on fixed deposit within the Loans Fund remained at £2.169 million, with the average interest rate paid increasing to 1.05%, in line with the approved Treasury Policy. Funds held from associated bodies and organisations decreased from £3.368 million to £2.983 million over the quarter, in line with their own cash flow requirements, whilst the average rate paid on these funds increased from 0.18% to 0.20%, in accordance with the approved Temporary Loan policy.
- 4.5 Short term cashflow surpluses are invested in a mixture of fixed term deposits, instant access accounts, notice accounts and money market funds. All investments were made in accordance with the approved Investment Strategy and permitted Investments.

Fixed Term Deposits

- 4.6 Cashflow surpluses which arise during the year and which are not immediately required are generally invested in fixed term deposits for periods of up to 12 months, or up to 3 years where forecast cashflow requirements allow.

- 4.7 There were 18 fixed rate deposits made in the quarter (totalling £117 million) for an average amount of £6.5million each at an average interest rate of 1.26% and for an average term of 230 days. Fixed deposit activity increased over the quarter following the advance PWLB borrowing that was undertaken in the previous quarter. With interest rate expectations increasing, many deposits were made for shorter durations, with a view to re-investing as rates increase. Interest rates improved with the two increases in the bank base rate and the expectation of further increases to follow. Subsequently, with the increase in interest rates, fixed deposits for shorter periods (1 to 6 months) are now giving higher returns and the deposits undertaken in the quarter will generate over £1m in interest when they reach maturity.

Investments for Daily Cashflow Requirements

- 4.8 Cashflow surpluses which are required for more immediate needs are invested in the Council's instant access, notice deposit accounts and money market funds. These investment transactions in the quarter can be summarised as follows:
- The daily average amount of such funds over the quarter decreased from £10.8million in the last quarter to £5.7 million in the current quarter.
 - The average interest rate achieved on these accounts over the quarter increased from 0.15% to 0.27% reflecting the increase in base rate.
 - Due to their relatively low rates, activity in notice accounts mostly related to giving notice on existing balances, to be re-invested in alternative investments.
 - Instant access facilities were used over the quarter to meet day-to-day cashflow requirements. However, the interest rate on such facilities remains low at 0.01%.
- 4.9 The total amount of investments outstanding at 31 March 2022 was £252 million compared to £260.5 million at the end of the previous quarter in December. The overall average rate of interest on the investments outstanding increased from 0.38% at the end of the previous quarter to 0.88% at the end of the current quarter. This increase reflects the increases in base rates over the quarter.
- 4.10 Total investment income generated on the investments undertaken during the quarter is £1,105,813 (£356,692 in the quarter ended 31 December 2021). This measure reflects the total return on the investment activity undertaken in each quarter and is significantly higher in the current quarter compared to last quarter as more funds were available to invest and interest rates had improved.
- 4.11 All of the above investment activities are consistent with the Council's current investment strategy and cashflow requirements.

5. COMPLIANCE

- 5.1 For the quarter ending 31 March 2022, there were no breaches in compliance with the Council's approved Treasury Management Policy Statement, Treasury Management Practices (TMP's) or lending limits as detailed in TMP 4 (Approved Instruments, Methods & Techniques).
- 5.2 Appendix III shows the list of approved counterparties, based on the Council's current lending policy, as at May 2022.
- 5.3 For the quarter ending 31 March 2022 the average closing cleared bank balance was £34,368.00 in credit.

6. INVESTMENT STRATEGY COMPLIANCE AND PERFORMANCE

- 6.1 The Treasury Investment Strategy for 2021/22 was approved by the Council at its meeting on 31 March 2021 (report 21/42 refers).
- 6.2 In the current quarter the level of Council investments peaked at £284.353 million on 17 January 2022 and reduced to £252.035 million by the end of the quarter. The average daily investment balance over the quarter was £262.917 million, which increased from an average of £233.232 million in the previous quarter and £230.238 million in the same quarter of last year.
- 6.3 As the Council undertook long-term borrowing of £90 million in the previous quarter the investment balances have increased, however, these will gradually reduce (subject to daily fluctuations) over the next few years as the Capital programme accelerates, and in line with forecast cashflows.
- 6.4 The Investment Strategy was applied in full over the quarter, with liquidity being maintained using instant access accounts and money market funds as detailed in paragraph 4.8 above. There were no other risks identified in the quarter.
- 6.5 The Investment Strategy also incorporates investments held by the Common Good Funds. All such investments during the quarter were with the Council's Loans Fund. The only Council funds held by external fund managers relate to Council administered Charitable Trusts and are, therefore, not covered by this Investment Strategy.
- 6.6 The budgeted income in 2021/22 for Commercial Property investments is £1,819,000 whilst the final position (subject to audit) for the year is £1,847,000. There were no new property investments entered into during the quarter.

7. PRUDENTIAL INDICATORS

- 7.1 Revised Prudential Indicators for 2022/23 to 2027/28 were approved by the Council at the meeting on 9 March 2022 (report 22/47 refers) as part of the Annual Treasury & Investment Strategy report.
- 7.2 The latest estimates of the Prudential Indicators, in line with the Council's current approved Capital Budget and Capital Financing (borrowing) requirements, are shown at Appendix IV.
- 7.3 As a result of the additional approved borrowing, the Council's Authorised Limit for borrowing was increased to £1.2 billion on 9 March 2022. The increased limit gives the Council more flexibility over the timing of new borrowing over the whole 6-year Capital Delivery Programme.

8. CONCLUSION AND RECOMMENDATIONS

- 8.1 The Bank of England's MPC increased the Bank Base Rate from 0.25% to 0.75% over the quarter due to rising inflation. PWLB borrowing rates were volatile over the quarter due to inflationary expectations and the war in Ukraine, however all durations of rates increased. Consequently, there was no new PWLB borrowing undertaken.
- 8.2 Investment activity in the quarter consisted of the use of instant access and money market funds to meet short term liquidity requirements, and increased use of fixed rate deposits as rates improved with the increases to Base rate. The total level of investments reduced slightly over the quarter.
- 8.3 The Council adhered to its Investment Strategy and policies throughout the quarter, with no breaches in compliance. The Authorised Limit was increased in order to deliver the current Capital Programme.

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Approved

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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	No
Asset Management (land, property, IST)	No
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

Corporate Plan

- 1.1 The Council's Corporate Plan 2018 – 2023 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.

- 1.2 This report relates to all these objectives.

2. Resource Implications

Financial

- 2.1 There are no direct financial implications arising from this report other than those reported within the body of the main report.

Workforce

- 2.2 There are no direct workforce implications arising from this report.

Asset Management (land, property, IT)

- 2.3 There are no direct asset management implications arising from this report other than those reported within the body of the main report.

3 Assessments

Equality Impact Assessment

- 3.1 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.
- 3.2 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.

Strategic Environmental Assessment

- 3.3 The Environmental Assessment (Scotland) Act 2005 places a duty on the Council to identify and assess the environmental consequences of its proposals.
- 3.4 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.

Sustainability

- 3.5 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.
- 3.6 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, Link Asset Services, have been consulted in the preparation of this report.

2. 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.

3. APPENDICES

- Appendix I – PWLB Fixed Maturity Interest Rates from 1 January to 31 March 2022.
- Appendix II – Summary of the Treasury Position and Transactions from 1 January to 31 March 2022.
- Appendix III – Approved Investment Counterparty List.
- Appendix IV – Monitoring of Prudential Indicators – Quarter ending 31 March 2022.