

PERTH AND KINROSS COUNCIL

30 August 2021

TREASURY ACTIVITY AND COMPLIANCE REPORT 2021/22 QUARTER 1

Report by Head of Finance
(Report No. 21/141)

PURPOSE OF REPORT

The purpose of this report is to update the Council on the Treasury Activity for the quarter ending 30th June 2021 and to report on compliance with the Council's Treasury Management Policy Statement (TMPS); Treasury Management Practices (TMPs); the Investment Strategy and the Prudential Indicators for the same period. The report also sets out a proposed amendment to future treasury reporting arrangements.

1. BACKGROUND / MAIN ISSUES

- 1.1 Treasury Management Practice 6 (TMP 6 - Reporting Requirements & Management Information Arrangements) requires that Loans Fund borrowing and investment activities are reported quarterly to the Council. This report covers the first quarter of the financial year for the period 1 April to 30 June 2021.

2. ECONOMIC BACKGROUND

- 2.1 The Bank of England's Monetary Policy Committee (MPC) kept the UK Bank Base Rate at 0.10% throughout the quarter and maintained the Quantitative Easing at £895 billion for the year. UK Gross Domestic Product (GDP) decreased by 1.6% between January and March 2021. There were declines in both household consumption and business investment as a result of a reintroduction of the Covid 19 restrictions during this period. The level of GDP in the UK was 8.8% lower than before the pandemic.
- 2.2 The UK unemployment rate was 4.8.% as the pandemic continued to impact the labour market. Average earnings (including bonuses) grew by 7.3% from March to May 2021, with the increase partly driven by a reduction in low paid jobs in the UK caused by the pandemic, and more staff coming off the furlough scheme. UK Consumer Price Inflation including housing costs (CPIH) rose to 2.4% in the 12 months to June 2021, mainly due to increasing transport costs. Retail sales decreased month-on-month in May 2021 by 1.4%.
- 2.3 Internationally, Eurozone GDP growth decreased by 0.3% in the quarter to March 2021 whilst EU unemployment reduced slightly to 7.9% in May 2021.

- 2.4 In the US, the economy grew by 6.4% in the quarter to March 2021 after increasing by 4.1% in the previous quarter. The Federal Reserve interest rate was unchanged at between 0% and 0.25%, whilst the quantitative easing programme also remained unchanged.
- 2.5 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 remained at around historically low levels, with rates for borrowing periods decreasing over the quarter for all time periods except for 1 year borrowing which increased slightly. However, all movements were within a narrow range.

3. TREASURY ACTIVITY

- 3.1 A summary of the Council's treasury position and transactions is shown at Appendix II. The main activities are detailed below.
- 3.2 During the quarter there was the repayment of one maturing fixed rate PWLB 12-year loan for £5 million at a rate 3.97%, whilst there was no new long-term borrowing undertaken. Therefore, over the quarter the Council's total long-term debt reduced from £533.8 million to £528.8 million and the average interest rate reduced from 2.75% to 2.74%.
- 3.3 The need for short-term borrowing to manage cashflow decreased over the quarter with receipt of Scottish Government covid related grant at the end of the previous quarter, as well as some maturing fixed deposits. At the end of the quarter, there were no short-term loans outstanding.
- 3.4 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 remaining unchanged at 0.10%. Funds held from associated bodies and organisations increased from £2.834 million to £3.341 million over the quarter, in line with their own cash flow requirements, whilst the average rate paid on these funds remained at 0.19%, in accordance with the approved Temporary Loan policy.
- 3.5 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

- 3.6 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 cashflow requirements allow. However, there were no fixed rate deposits made in the quarter as cashflow requirements required any surpluses to be retained for use in the short term.. In addition, lending rates fell to very low levels and the interest rates on notice accounts within the banking sector became preferable and were utilised to match cashflow requirements.

Investments for Daily Cashflow Requirements

- 3.7 Cashflow surpluses which arise and which are required for more immediate needs, usually within the next 3 months, are invested in the Council's instant access, notice deposit accounts and money market funds. During the quarter, there was a continued cashflow requirement as the Council responded to the impact of the pandemic and to meet the repayment of short-term borrowing undertaken in the previous quarter. The short-term investment transactions in the quarter can be summarised as follows:
- The daily average amount of such investments held over the quarter increased from £10.5 million in the last quarter to £11.5 million in the current quarter.
 - The average interest rate achieved on these accounts over the quarter increased from 0.03% to 0.04% reflecting increased use of notice accounts.
 - Extensive use of instant access facilities over the quarter continued to meet day-to-day cashflow requirements. However, the interest rate on such facilities remains low at 0.01%.
- 3.8 The total amount of investments outstanding at the end of the quarter decreased, closing at £189 million compared to £236.7 million at the end of the last quarter. This can be partly attributed to maturing fixed deposits in the quarter being required to meet cashflow requirements, including the ongoing payment of Covid-19 related grants and expenditure. The overall average rate of interest earned on the investments outstanding reduced from 0.54% at the end of the previous quarter to 0.52% at the end of the current quarter. The average rate of the Council's investments includes fixed-rate deals undertaken in previous quarters before interest rates fell significantly.
- 3.9 Over the quarter the interest rate receivable on most instant access and Money Market Funds remained at 0.01% or less, reflecting the banks reluctance to hold large cash balances for shorter periods. However, maturing fixed term deposits with local authorities, were reinvested into notice accounts with banks to keep cash balances available for cashflow requirements.
- 3.10 Total investment income generated on the investments undertaken during the quarter was £12,217. This measure reflects the total return on the investment activity undertaken in each quarter and is significantly lower in the current quarter as a result of no fixed deposits being made.
- 3.11 All of the above investment activities are consistent with the Council's current investment strategy and cashflow requirements.

4. COMPLIANCE

- 4.1 For the quarter ending 30 June 2021, 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).

- 4.2 TMP4 also requires that a working list of specific approved counterparties (including lending limits) is maintained by the Head of Finance. This list is continuously reviewed and updated for any movements in credit ratings and other relevant factors including press coverage or emerging issues. Appendix III shows the list of approved counterparties, based on the current lending policy, as at July 2021.
- 4.3 A further requirement of TMP4 is to measure cashflow performance, which is expressed as the average closing cleared bank balance for the period. For the quarter ending 30 June 2021 the average closing cleared bank balance was £30,808.89 in credit.

5. INVESTMENT STRATEGY COMPLIANCE AND PERFORMANCE

- 5.1 The Treasury Investment Strategy for 2021/22 was approved by the Council at its meeting on 31 March 2021 (report 21/42 refers).
- 5.2 In the current quarter the actual level of investments peaked at £270.994 million on 16 April and reduced to £189 million by the end of the quarter. The average daily investment balance over the quarter was £228.98 million, which decreased slightly from an average of £230.2 million in the previous quarter and increased from £213.99 million in the same quarter of last year. These variations reflect the use of funds in the current quarter to meet the Council's daily cashflow requirements.
- 5.3 The Council does not require to undertake any long-term borrowing in the current year, and it is therefore anticipated that the investment balances will gradually reduce (subject to daily fluctuations) over the next year in line with forecast cashflows. However, with continued volatility and very low PWLB rates, some long-term borrowing may be considered to support the Council's ongoing Capital programme and increasing borrowing requirements over time. Any such borrowing would increase the level of investments in the short term.
- 5.4 The Investment Strategy was applied in full over the quarter, with liquidity being maintained using instant access accounts, notice accounts and money market funds as detailed in Section 3.7 above. There were no other risks identified in the quarter.
- 5.5 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 the Investment Strategy.
- 5.6 The budgeted income in 2021/22 for Commercial Property investments is £1,819,000 whilst the latest projection for the year is £1,813,000. There were no new property investments entered into during the quarter.

6. PRUDENTIAL INDICATORS

- 6.1 Revised Prudential Indicators for 2020/21 to 2028/29 were approved by the Council at the meeting on 7 October 2020 (report 20/179 refers) as part of the Annual Treasury & Investment Strategy report.
- 6.2 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
- 6.3 The indicators for Financing Costs remain at a relatively low level as a result of continuing low interest rates, as well as pro-active treasury management. They also reflect the current estimates for new borrowing each year and the latest forecast for interest rates. As a result, they only fluctuate within a narrow range each year, reflecting a stable budgetary position. However, the Council's estimated total Financing Costs are on an increasing trend over the longer term, reflecting the increase in budgeted levels of Capital expenditure funded by borrowing, as well as interest rates being expected to gradually rise over the coming years.
- 6.4 The movements in estimated Capital Expenditure and the Capital Financing Requirement reflect movements on the Composite Capital and Housing Investment programmes approved by the Council. Last year there was significant slippage in the Capital programme as a result of the lockdown restrictions, however expenditure is anticipated to increase significantly over the next two years.

7. PROPOSED AMENDMENT TO REPORTING ARRANGEMENTS

- 7.1 Operational Treasury Management is delegated to the Head of Finance under the Council's Scheme of Administration. This activity is governed by the Annual Treasury Strategy approved by Council and by the Council's daily cashflow requirements and the requirements of financing the Council's approved Capital Budget.
- 7.2 Retrospective operational quarterly reports on treasury activity and compliance are currently submitted to full Council for noting. This is, however, a recognised anomaly as all other in-year financial reporting is considered by the Council's Strategic Policy & Resources Committee.
- 7.3 The following amendment to the Council's treasury reporting is, therefore, proposed:
 - The Annual Treasury Strategy and the retrospective full-year annual report will continue to be submitted to Council for scrutiny, approval and noting. No change is proposed in respect of these strategic reports.
 - As an amendment to current arrangements, it is proposed that the operational quarterly reports on treasury activity and compliance be

submitted for scrutiny and noting to the Strategic Policy & Resources Committee.

- This will enable a consistent and more integrated approach to the reporting of the Council's in-year financial position with the Council's Revenue and Capital expenditure and the treasury activity, and compliance with approved Treasury policies, undertaken to support this expenditure all being reported to the Strategic Policy & Resources Committee.

8. CONCLUSION AND RECOMMENDATIONS

- 8.1 Treasury Management activity in the quarter included the use of instant access, notice accounts and money market funds to meet short term liquidity requirements, with no fixed rate deposits undertaken. There was a reduction in short-term borrowing over the quarter as fixed deposits matured. The total level of investments decreased over the quarter as Covid-19 grants and other expenditure was paid. There was one PWLB loan repaid at maturity in the quarter, with no new long-term borrowing undertaken.
- 8.2 The Council adhered to its Investment Strategy and policies throughout the quarter, with no breaches in compliance.
- 8.3 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.
- 8.4 It is recommended that the Council approves the amendment to reporting arrangements set out above in paragraph 7.3 of the report.

Author(s)

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|---------------|-------------------|--|
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Approved

| Name | Designation | Date |
|-------------------|-------------------------|----------------|
| Stewart MacKenzie | Head of Finance | 9 August 2021 |
| Karen Donaldson | Chief Operating Officer | 10 August 2021 |

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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

- 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 Interest Rates from 1 April to 30 June 2021.
- Appendix II – Summary of the Treasury Position and Transactions from 1 April to 30 June 2021.
- Appendix III – Approved Investment Counterparty List
- Appendix IV – Monitoring of Prudential Indicators – Quarter ending 30 June 2021