

**PERTH AND KINROSS COUNCIL**

**Finance & Resources Committee**

**7 September 2022**

**TREASURY ACTIVITY AND COMPLIANCE REPORT  
2022/23 QUARTER 1**

**Report by Head of Finance  
(Report No. 22/210)**

**1. PURPOSE**

- 1.1 The purpose of this report is to update the Committee on Treasury Activity for the quarter ending 30 June 2022 and to report on compliance with the Council's Treasury Management Policy Statement (TMPS); Investment Strategy and Prudential Indicators. The report also sets out proposed amendments to the Temporary Loans policy and Empty Homes Loans Fund policy.

**2. RECOMMENDATIONS**

- 2.1 It is recommended that the Committee:
- (i) notes the content of this report,
  - (ii) approves the amendment to the Temporary Loans Policy, detailed at Section 8 of this report,
  - (iii) approves the amendment to the Empty Homes Loans Fund policy, detailed at Section 9 of this report.

**3. ECONOMIC BACKGROUND**

- 3.1 The Bank of England's Monetary Policy Committee (MPC) increased the UK Bank Base Rate over the quarter from 0.75% to 1% at its meeting on 5 May 2022, and then from 1% to 1.25% at its meeting on 16 June 2022. The increases in the Bank Base Rate were mainly in response to continuing rising inflation, as increased energy and food costs, as well as the economic impact of the conflict in Ukraine continued. 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 Subsequently, at its meeting on 4 August 2022, the MPC increased the Bank Base Rate further by 0.5% to 1.75%. This was as a result of an increase in inflation expectations, which has been rising faster than previously forecast, and was now expected to reach 13% by the end of the year. The MPC also projected the UK would enter recession by the end of the year and for inflation to remain at elevated levels over most of next year. They also advised that future changes in the Bank Base Rate would reflect the prevailing economic outlook and inflation data and pressures. Many economic forecasts are now

projecting the Bank Base Rate to increase to around 4% by the end of next year.

- 3.3 Internationally, Europe and the US also showed a continued rise in inflation due to similar factors affecting the UK.
- 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 in Appendix I. PWLB borrowing rates showed significant volatility over the quarter due to the conflict in Ukraine and inflationary pressures. In addition, the impact of the base rate increases and increasing inflationary expectations increased rates over the quarter in all durations.

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

- 4.1 A summary of the Council's treasury position and transactions is shown in 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 £5 million at 2.97% which had been borrowed for 10 years.
- 4.3 Over the quarter the Council's total long-term debt decreased from £611.3 million at an average interest rate of 2.57% to £606.3 million at an average interest rate of 2.56%. There was one short-term loan borrowed in the quarter to manage daily cashflows over the end of the quarter, for £8 million at 1.10% for 3 weeks.
- 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 remaining at 1.05%. Funds held from associated bodies and organisations increased from £2.983 million to £3.767 million over the quarter, in line with their own cash flow requirements, whilst the average rate paid on these funds decreased from 0.20 to 0.18% 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 12 fixed rate deposits made in the quarter (totalling £62.5 million) for an average amount of £5.2million each and at an average interest rate of 1.98% for an average term of 272 days. Fixed deposit activity in the current quarter was therefore lower than the previous quarter to 31 March (£117

million). With interest rate increases anticipated, deposits were initially made in shorter durations with a view to re-investing some funds as rates increase. Interest rates increased over the quarter in line with the Bank Base Rate and with expectations of further increased over the next few months. Subsequently, with the increase in interest rates, longer duration deposits were undertaken for up to 12 months. Deposits in the quarter will generate almost £1 million in interest at their 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 increased from £5.7million in the last quarter to £6.37 million in the current quarter.
  - The average interest rate achieved on these accounts over the quarter increased from 0.27% to 0.79% reflecting the increase in base rate.
  - Due to their relatively low rates, the only activity in notice accounts related to existing balances where notice had previously been given, 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 0.10%.
  - Interest generated on these investments over the quarter amounted to almost £58,000
- 4.9 The total amount of investments outstanding at 30 June 2022 was £246.8 million compared to £252 million at the end of the previous quarter in March 2022. The overall average rate of interest on the investments outstanding increased from 0.88% at the end of the previous quarter to 1.30% 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 £1,057,115 (£1,105,813 in the quarter ended 31 March 2022). This measure reflects the total return on the investment activity undertaken in each quarter and is only slightly lower in the current quarter compared to last quarter despite the reduced activity, due to the increased interest rates.
- 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 30 June 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 July 2022.
- 5.3 For the quarter ending 30 June 2022 the average closing cleared bank balance was £35,000 in credit. This reflects the daily target balance applied by the Council's "sweep facility" applied by the bank, with any credit balance in excess of £35,000 being "swept up" overnight to the Council's instant access account.

## **6. INVESTMENT STRATEGY COMPLIANCE AND PERFORMANCE**

- 6.1 The Treasury Investment Strategy for 2022/23 was approved by the Council at its meeting on 9 March 2022 (report 22/47 refers).
- 6.2 In the current quarter the level of Council investments peaked at £269.204 million on 13 April 2022 and reduced to £246.774 million by the end of the quarter. The average daily investment balance over the quarter was £256.348 million, which decreased from an average of £262.917 million in the previous quarter and increased from £228.988 million in the same quarter of last year.
- 6.3 Due to the Council taking long-term borrowing of £90 million in November and December last year the investment balances in the current year are higher. However, this is gradually reducing (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 2022/23 for Commercial Property investments is £1,812,000 whilst the latest projection for the year is £1,861,000. 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 in Appendix IV. These show that the Council adhered to all Prudential limits in the quarter, and that the Council's plans remain prudent, affordable and sustainable.

## 8. PROPOSED REVISED LOCAL TEMPORARY LOANS POLICY

8.1 The Council offers the facility for several associated bodies to deposit money with the Council which is managed as part of the overall Treasury activity. These deposits are referred to as “temporary loans” to the Council. At present, the Council holds funds on behalf of TACTRAN and Culture Perth & Kinross amongst others. The current policy for local Temporary Loans was devised around 20 years ago, when the Bank base rates averaged around 4 to 5% and is based on a formula of base rate less various percentage points depending on the size of the balance of the temporary loan. The policy was subsequently updated when the base rate fell to below 3% in December 2008 to accommodate lower levels of base rate in order to avoid negative interest rates.

8.2 The base rate has remained below these levels ever since, and even with the current increases in the base rate, they are not projected to rise to the levels experienced in the past. Therefore, it is considered that the current policy is no longer fit for purpose, particularly given the low level of rates produced with the current formula.

8.3 It is therefore proposed to amend the formula within the Temporary Loan policy as follows:

Loans of £1,000,000 or more: Rate – 0.5% below Bank Base Rate

Loans of £250,000 or more but less than £1,000,000: Rate – 0.75% below Bank Base Rate

Loans of £50,000 or more but less than £250,000: Rate – 1.0% below Bank Base Rate

Loans of less than £50,000: No new deposit can be accepted which is less than £50,000. Any existing deposit whose balance falls below £50,000 will receive interest at Bank Base Rate less 1.10%. For the avoidance of doubt, the rate offered will never be less than 0% should the Bank Base Rate fall to 1.10% or less.

8.4 Interest on temporary loans are paid half-yearly on 31 March and 30 September each year. It is therefore further proposed that the revised policy outlined above be introduced with effect from 1 October 2022.

8.5 For comparison, current and proposed local Temporary Loan rates are summarised in the table below:

Balance	Current Rate	Proposed Rate
£1,000,000+	0.25%	1.25%
£250,000 to £1M	0.10%	1.00%
50,000 to £250,000	0.10%	0.75%
less than £50,000	0.10%	0.65%

## **9. PROPOSED AMENDMENT TO THE EMPTY HOMES LOANS FUND POLICY**

- 9.1 The policy and criteria for the Empty Homes Loan Fund was approved by the Council in October 2015 (report 15/413 refers), and subsequently amended in April 2017 (report 17/174 refers). The fund was established following the receipt of an interest free loan of £350,000 from the Scottish Government, with the purpose of being lent out as interest free loans to property owners in order that they can bring unoccupied properties back into use. The properties are then let as affordable homes at local housing allowance rent levels set by the Scottish Government. Under the existing policy, the loans are secured on the property in question; the maximum loan amount per property is £20,000 for an individual property, with larger projects considered on a case by case basis; owners are required to bring the property up to a Council approved lettable “repairing standard” and to then make the property available for letting or sale at affordable levels.
- 9.2 To date the scheme has proved successful, with 4 individual loans given out totalling £330,000, and providing an additional 14 properties to let in the Perth & Kinross area. A further application for funding has been received, as well as further expressions of interest in the scheme from the owners of other unoccupied properties. However, as there is only £20,000 of the original amount remaining in the Fund, the Council would only be able to offer limited support.
- 9.3 It is therefore proposed to operate the fund on a rolling basis, with repayments from existing loans being made available to be re-lent to subsequent applications. The balance outstanding on the current loans is £215,000, which would therefore mean that £135,000 would currently be available to lend under the scheme. The total repayments on the current loans are around £4,000 per month at present, and to date there have been no repayment defaults. It is not proposed to make any changes to the criteria for approving loans under the scheme, and therefore delegated authority for approving loans would remain with the Executive Director (Communities).

## **10. CONCLUSION AND RECOMMENDATIONS**

- 10.1 The Bank of England’s MPC increased the Bank Base Rate from 0.75% to 1.25% over the quarter due to continued inflationary pressures. PWLB borrowing rates were volatile over the quarter due to the continued inflationary expectations and economic growth prospects. All borrowing durations increased in rate over the quarter. There was no new PWLB borrowing undertaken, whilst there was one loan repaid at maturity.
- 10.2 Investment activity in the quarter consisted of the use of instant access and money market funds to meet short term liquidity requirements, and use of fixed rate deposits as rates improved with the increases to Base rate. Investment activity and the total level of investments reduced over the quarter.

- 10.3 The Council adhered to its Investment Strategy and policies throughout the quarter, with no breaches in compliance. However, it is proposed to amend the policy for local Temporary Loans with the Council to fit with current levels of interest rates, and to extend the operation of the Empty Homes Loans Fund.
- 10.4 The Council's Prudential Indicators were also adhered to throughout the quarter, and the Council's plans remain prudent, affordable and sustainable.

#### Author(s)

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#### Approved

Name	Designation	Date
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Karen Donaldson	Chief Operating Officer	24 August 2022

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## 1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

<b>Strategic Implications</b>	<b>Yes / None</b>
Community Plan / Single Outcome Agreement	None
Corporate Plan	Yes
<b>Resource Implications</b>	
Financial	Yes
Workforce	None
Asset Management (land, property, IST)	None
<b>Assessments</b>	
Equality Impact Assessment	Yes
Strategic Environmental Assessment	Yes
Sustainability (community, economic, environmental)	Yes
Legal and Governance	None
Risk	None
<b>Consultation</b>	
Internal	Yes
External	None
<b>Communication</b>	
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 2022.
- Appendix II – Summary of the Treasury Position and Transactions from 1 April to 30 June 2022.
- Appendix III – Approved Investment Counterparty List.
- Appendix IV – Monitoring of Prudential Indicators – Quarter ending 30 June 2022.