

PERTH AND KINROSS COUNCIL

**Finance & Resources Committee
26 April 2023**

TREASURY ACTIVITY AND COMPLIANCE REPORT 2022/23 QUARTER 4

**Report by Head of Finance
(Report No. 23/122)**

1. PURPOSE

- 1.1 The purpose of this report is to update the Committee on Treasury Activity for the quarter ending 31 March 2023 and to report on compliance with the Council's Treasury Management Policy Statement (TMPS); Investment Strategy and Prudential Indicators.

2. RECOMMENDATION

- 2.1 It is recommended that the Committee:
- (i) notes the content of this report.
 - (ii) approves the continuation of the Council's 2022/23 Permitted Investments until 10 May 2023.

3. STRUCTURE OF REPORT

- 3.1 This report is structured over the following sections:
- Section 4: Economic Background
 - Section 5: Treasury Activity
 - Section 6: Compliance
 - Section 7: Investment Strategy Compliance and Performance
 - Section 8: Prudential Indicators
 - Section 9: Conclusion

4. ECONOMIC BACKGROUND

- 4.1 The Bank of England's Monetary Policy Committee (MPC) increased the UK Bank Base Rate from 3.50% to 4.0% at its meeting on 2 February 2023, with a further increase to 4.25% on 23rd March 2023. These increases were in response to high CPI inflation. While UK Inflation fell slightly from 10.5% in December 2022 to 10.1% in January 2023 it unexpectedly increased to 10.4% in February 2023. The biggest upward pressure came from the cost of food and non-alcoholic beverages mainly due to shortages of salad produce and other vegetables in Southern Europe & Africa, as well as the impact of higher electricity prices. Retail Price Index (RPI) inflation increased from 13.4% in January 2023 to 13.8% in February 2023. The latest CPI inflation figure shows a reduction to 10.1% in March 2023 (RPI 13.5%), with continuing high food prices keeping inflation higher than forecast.

- 4.2 UK Gross Domestic Product (GDP) showed no growth in the 3 months to December 2022 with exports declining and imports increasing, however this was better than forecast.
- 4.3 Internationally, Europe experienced no GDP growth in the last quarter to 31 December 2022, but there was a slight reduction in inflation. However, as inflation was still at a high level in these regions, central banks also increased their bank rates over the quarter. In the US, GDP and Inflation both fell. The US interest rate also increased in response to continued high inflation.
- 4.4 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 and had decreased at the start of the quarter before increasing significantly in the second half of the quarter. The volatility was caused by the impact of base rate increases, inflationary pressures, and economic growth prospects relative to other major economies. Uncertainty surrounding the global banking sector also added to the volatility towards the end of the quarter. Over the 3-month period, longer-term rates were slightly lower by the end of the quarter, whilst the short term (1 year) rate ended higher.

5. TREASURY ACTIVITY

- 5.1 A summary of the Council's treasury position and transactions is shown in Appendix II. The main activities are detailed below.
- 5.2 During the quarter there was no new long-term PWLB borrowing undertaken, however there was one maturing 11.5 year PWLB fixed-rate loan for £3 million at 4.22% repaid in the quarter. Therefore, over the quarter the Council's total long-term debt reduced from £606.3 million to £603.3 million at an average rate of 2.56%. There was 1 short-term market loan borrowed in the quarter for £3 million for 17 days at 4.0%, which was repaid before the end of the quarter.
- 5.3 Common Good and Charitable Fund balances held on fixed deposit within the Loans Fund increased slightly from £2.132 million to £2.294 million, with the average interest rate paid increasing from 1.14% to 3.93%. Funds held from associated bodies and organisations reduced from £4.129 million to £3.117 million over the quarter, in line with their own cash flow requirements, whilst the average rate paid on these funds increased from 2.86% to 3.63% in line with increases in the Bank Base Rate.
- 5.4 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

- 5.5 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.

- 5.6 There were 14 fixed rate deposits made in the quarter (totalling £92 million) at an average amount of £3.5 million and at an average interest rate of 4.19% and average term of 176 days. Fixed deposit activity in the current quarter therefore increased from the previous quarter to 31 December (£25 million) mainly due to maturing deposits and retaining cashflows in the run up to the end of the financial year. The deposits were spread between different banking sectors and other local authorities. As interest rates increased over the quarter, the average rate also improved. Deposits undertaken in the quarter will generate £2,314,645 in interest at their maturity.

Investments for Daily Cashflow Requirements

- 5.7 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 reduced from £7.2 million in the last quarter to £4.4 million in the current quarter.
 - The average interest rate achieved on these accounts over the quarter increased from 2.83% to 3.64% reflecting the increase in the base rate.
 - The reduction in activity on these accounts reflects the increase in fixed deposit transactions and cashflow balances in the last quarter of the financial year.
 - Money Market Funds, which operate on instant access terms, were used extensively over the quarter to invest day-to-day cashflow balances. However, the average amount invested reduced from £11.8 million in the previous quarter to £6.5 million in the current quarter, whilst the average interest rate increased from 2.89% to 3.72%.
 - Interest generated on these investments over the quarter amounted to £90,473.
- 5.8 The total amount of investments outstanding at 31 March 2023 was £173.650 million compared to £207.67 million at the end of the previous quarter. The overall average rate of interest on the investments outstanding increased from 2.67% at the end of the previous quarter to 3.76% at the end of the current quarter. This increase reflects the increases in base rates over the quarter.
- 5.9 Total investment income generated on the investments undertaken during the quarter is £2,405,117 (£456,228 in the quarter ended 31 December 2022). This measure reflects the total return on the investment activity undertaken in each quarter and is significantly higher in comparison to the last quarter due to the increase in fixed deposit activity for longer durations, and the significant increase in interest rates available.
- 5.10 All of the above investment activities are consistent with the Council's current investment strategy and cashflow requirements.

6. COMPLIANCE

- 6.1 For the quarter ending 31 March 2023, 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).
- 6.2 Appendix III shows the list of approved counterparties, based on the Council's current lending policy, as at March 2023.
- 6.3 For the quarter ending 31 March 2023 the average closing cleared bank balance was £28,405 in credit. This reflects the application of the Council's "sweep facility" operated by the bank, with any credit balance in excess of £35,000 being "swept up" overnight to the Council's instant access account.

7. INVESTMENT STRATEGY COMPLIANCE AND PERFORMANCE

- 7.1 The Treasury Investment Strategy for 2022/23 was approved by the Council at its meeting on 9 March 2022 (report 22/47 refers).
- 7.2 In the current quarter, the level of Council investments peaked at £232.977 million on 18 January 2023 and reduced to £173.650 million by the end of the quarter. The average daily investment balance over the quarter was £205.159 million, which decreased from an average of £237.987 million in the previous quarter and from £262.917 million in the same quarter of last year. This highlights the significant reduction in investment balances in the quarter.
- 7.3 As a result of long-term borrowing last year, the investment balances in the current year have been higher. However, this is steadily reducing (subject to daily fluctuations) as the Capital programme is delivered, and in line with forecast cashflows particular towards the end of the financial year. In line with the approved Capital Programme, investment balances are forecast to fall significantly over the next 12 months.
- 7.4 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 5.7 above. There were no other risks identified in the quarter.
- 7.5 As the Council's Treasury & Investment Strategy for 2023/24 to 2027/28 will not be considered until the Council meeting on 10 May 2023, it is proposed that the Permitted Investments for 2022/23 continue in force until that time. It is not proposed to make any changes to the Permitted Investments or limits at this time.
- 7.6 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.

7.7 The budgeted income in 2022/23 for Commercial Property investments is £1,812,000 whilst the latest projection for the year is £1,868,000. There were no new property investments entered into during the quarter.

8. PRUDENTIAL INDICATORS

8.1 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.

8.2 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. However, the annual Loan Charges relative to the Net Revenue stream and the Capital Financing (Borrowing) Requirement show an increasing trend which reflects the current Capital Programme and increasing interest rates forecast over the period. The estimates of Capital Expenditure and the borrowing requirements also reflect the increases approved in the Composite Capital programme over the last year.

9. CONCLUSION

9.1 The Bank of England's MPC increased the Bank Base Rate from 3.50% to 4.25% over the quarter due to continued inflationary pressures. Inflation increased unexpectedly in February 2023 primarily due to food and energy costs.

9.2 PWLB borrowing rates fluctuated over the quarter due to the continued inflationary expectations and economic growth prospects. Rates for short-term PWLB borrowing increased over the quarter whilst the rates for longer term borrowing fell slightly. All rates, however, remain at higher levels compared to early in the year.

9.3 Investment activity in the quarter consisted mainly of the use of fixed deposits as previous deposits matured, and the use of money market funds to meet day-to-day cashflows. Investment rates and activity increased over the quarter, however, the total level of investments outstanding reduced.

9.4 The Council adhered to its Investment Strategy and policies throughout the quarter, with no breaches in compliance. It is proposed that the Permitted Investments for 2022/23 continue in force until the Council consider the Annual Treasury & Investment Strategy on 10 May 2023.

9.5 The Council's Prudential Indicators were also adhered to throughout the quarter.

Author(s)

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Approved

Name	Designation	Date
Stewart MacKenzie	Head of Finance	4 April 2023
Karen Donaldson	Chief Operating Officer	4 April 2023

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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	None
Asset Management (land, property, IST)	None
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 2022 – 2027 lays out seven 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:

- Tackling Poverty
- Tackling climate change and supporting sustainable places
- Growing a sustainable and inclusive local economy
- Enabling our children and young people to achieve their full potential
- Protecting and caring for our most vulnerable people
- Supporting and promoting physical and mental wellbeing
- Placing communities at the heart of how we work

1.2 This report relates to all of 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 January to 31 March 2023.
- Appendix II – Summary of the Treasury Position and Transactions from 1 January to 31 March 2023.
- Appendix III – Approved Investment Counterparty List.
- Appendix IV – Monitoring of Prudential Indicators – Quarter ending 31 March 2023.