

PERTH AND KINROSS COUNCIL

**Finance & Resources Committee
1 February 2023**

**TREASURY ACTIVITY AND COMPLIANCE REPORT
2022/23 QUARTER 3**

**Report by Head of Finance
(Report No. 23/32)**

1. PURPOSE

- 1.1 The purpose of this report is to update the Committee on Treasury Activity for the quarter ending 31 December 2022 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.

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 over the quarter from 2.25% to 3.0% at its meeting on 3 November, and then to 3.50% at its meeting on 15 December 2022. The increases in the Bank Base Rate were in response to continuing rises in CPI inflation which peaked at 11.1% in October, largely due to increased energy and food costs, before reducing slightly to 10.7% in November, and to 10.5% in December 2022. The Retail Price Index (RPI) inflation fell from 14.2% to 13.4% over this same period (October to December 2022).
- 4.2 UK Gross Domestic Product (GDP) decreased by 0.3% over the quarter to September 2022, as household expenditure reduced, whilst the Unemployment rate increased in the 3 months to October 2022.

- 4.3 Following the period of market volatility and increased interest rates in the aftermath of the UK Government's Growth Plan at the end of September, interest rates fell following the appointment of the new Chancellor and the reversal of proposed tax cuts. Rates continued to fall further in response to the Autumn statement, however, they remain at high levels for the year. The Bank of England also resumed its sale of UK government bonds (gilts) which it had purchased under its previous Quantitative Easing programme.
- 4.4 Internationally, Europe and the US both experienced reduced GDP rates as well as a slight reduction in inflation. However, as inflation was still at a high level in these regions, their central banks also increased their bank rates over the quarter.
- 4.5 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 in Appendix I. PWLB borrowing rates showed significant volatility over the quarter and had increased for long-term borrowing over 30 years or more by the end of the quarter. However, for shorter-term borrowing, the rates decreased with the 5-year rate falling significantly. The volatility over the quarter was a result of the UK Government's fiscal statement as well as other factors, including the impact of base rate increases, inflationary pressures and economic growth prospects relative to other major economies.

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 or repayment of PWLB fixed-rate loans. Therefore, over the quarter the Council's total long-term debt remained unchanged at £606.3 million at an average interest rate of 2.56%. There were 2 short-term temporary loans undertaken in the quarter: the first was for £5 million in October for one month at 2.40%, the second was in November for £5 million at 2.75% for 3 weeks. There was no temporary borrowing outstanding at the end of the quarter.
- 5.3 Common Good and Charitable Fund balances held on fixed deposit within the Loans Fund reduced slightly from £2.169 million to £2.131 million, with the average interest rate paid increasing from 1.12% to 1.14%. Funds held from associated bodies and organisations increased from £3.525 million to £4.129 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 2.86% in accordance with the revised Temporary Loan Policy approved by the Committee on 7 September 2022 (report 22/210 refers).
- 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 4 fixed rate deposits made in the quarter (totalling £25 million) at an average amount of £6.25 million and at an average interest rate of 3.87% and average term of 128 days. Fixed deposit activity in the current quarter, therefore, decreased from the previous quarter to 30 September (£84 million) mainly due to fewer maturing deposits and cashflow requirements only allowing for shorter term investments. As interest rates increased over the quarter, the average rate also improved. Deposits undertaken in the quarter will generate £345,373 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 increased from £3 million in the last quarter to £7.2 million in the current quarter.
 - The average interest rate achieved on these accounts over the quarter increased from 1.42% to 2.83% reflecting the increase in the base rate.
 - Due to their relatively low rates, the only activity in notice accounts related to existing balances where notice had previously been given.
 - Money Market Funds, which operate on instant access terms, were used extensively over the quarter to meet day-to-day cashflow requirements. The average amount invested increased from £4.9 million in the previous quarter to £11.8 million in the current quarter, whilst the average interest rate increased from 1.47% to 2.89%.
 - Interest generated on these investments over the quarter amounted to £110,855.
- 5.8 The total amount of investments outstanding at 31 December 2022 was £207.7million compared to £240.5 million at the end of the previous quarter. The overall average rate of interest on the investments outstanding increased from 2.13% at the end of the previous quarter to 2.67% 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 £456,228 (£2,550,885 in the quarter ended 30 September 2022). This measure reflects the total return on the investment activity undertaken in each quarter and is significantly lower in comparison to the last quarter due to cashflow requirements reducing investment activity.

- 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 December 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).
- 6.2 Appendix III shows the list of approved counterparties, based on the Council's current lending policy, as at January 2023.
- 6.3 For the quarter ending 31 December 2022 the average closing cleared bank balance was £26,319.86 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 £259.092 million on 17 October 2022 and reduced to £207.673 million by the end of the quarter. The average daily investment balance over the quarter was £237.987 million, which decreased from an average of £259.296 million in the previous quarter and increased slightly from £233.231 million in the same quarter of last year.
- 7.3 As a result of the long-term borrowing last year, the investment balances in the current year are higher. However, this is steadily reducing (subject to daily fluctuations) which will continue over the next year as the Capital programme accelerates, and in line with forecast cashflows.
- 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 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.
- 7.6 The budgeted income in 2022/23 for Commercial Property investments is £1,812,000 whilst the latest projection for the year is £1,893,000. 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.

9. CONCLUSION

- 9.1 The Bank of England's MPC increased the Bank Base Rate from 2.25% to 3.5% over the quarter due to continued inflationary pressures. There was continued volatility within the markets at the start of the quarter, resulting in interest rates rising, however volatility levels did reduce towards the end of the quarter.
- 9.2 PWLB borrowing rates were also volatile over the quarter due to the continued inflationary expectations, economic growth prospects and the market reaction to the September fiscal statement noted above. Rates for shorter term PWLB borrowing decreased over the quarter whilst the rates for longer term borrowing of 30 years or more increased. 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 money market funds to meet short term liquidity requirements, and the use of fixed rate deposits for longer durations. Investment rates increased over the quarter, whilst activity decreased as a result of cashflow requirements, and 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.
- 9.5 The Council's Prudential Indicators were also adhered to throughout the quarter.

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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	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:

- (i) Tackling Poverty
- (ii) Tackling climate change and supporting sustainable places
- (iii) Growing a sustainable and inclusive local economy
- (iv) Enabling our children and young people to achieve their full potential
- (v) Protecting and caring for our most vulnerable people
- (vi) Supporting and promoting physical and mental wellbeing
- (vii) 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 October to 31 December 2022.
- Appendix II – Summary of the Treasury Position and Transactions from 1 October to 31 December 2022.
- Appendix III – Approved Investment Counterparty List.
- Appendix IV – Monitoring of Prudential Indicators – Quarter ending 31 December 2022.