

PERTH AND KINROSS COUNCIL

Finance & Resources Committee

22 November 2023

TREASURY ACTIVITY AND COMPLIANCE REPORT 2023/24 QUARTER 2

Report by Head of Finance
(Report No. 23/317)

1. PURPOSE

- 1.1 The purpose of this report is to update the Committee on Treasury Activity for the quarter ending 30 September 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) note the content of this report.
 - (ii) approve the revised limits for depositing funds with Money Market Funds, as detailed in Section 6.

3. STRUCTURE OF REPORT

- 3.1 This report is structured over the following sections:
- Section 4: Economic Background
 - Section 5: Treasury Activity
 - Section 6: Proposed Amendment to Investment Policy
 - Section 7: Compliance
 - Section 8: Investment Strategy Compliance and Performance
 - Section 9: Prudential Indicators
 - Section 10: Conclusion

4. ECONOMIC BACKGROUND

- 4.1 The Bank of England's Monetary Policy Committee (MPC) increased the UK Bank Base Rate from 5% to 5.25% on 3 August 2023. At both their subsequent meetings on 21 September and 2 November, they voted to keep the rate unchanged. UK inflation fell from 7.9% in June 2023 to 6.8% in July and fell again in August to 6.7%, with inflation in September remaining unchanged. This was the lowest rate since February 2022, primarily due to a slowdown in food inflation and a decline in the cost of accommodation services. Additionally, the core inflation rate, which excludes volatile items such as energy and food costs, also dropped.

- 4.2 Internationally, the Eurozone experienced GDP growth of 0.1% in the quarter to 30 June 2023. CPI Inflation continued to reduce whilst interest rates were increased in both July and September by 0.25%, finishing the quarter at 4.5%. In the US, GDP fell and inflation increased over the quarter. The US interest rate remained in the range of 5.25% to 5.50% in September 2023.
- 4.3 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 continuing volatility due to movements in base rate and future expectations. Interest rates for shorter term borrowing decreased by the end of the quarter as inflation continued to ease, whilst longer term rates increased due to other economic and political factors.

5. TREASURY ACTIVITY

- 5.1 A summary of the Council's treasury position and transactions is shown at 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 maturing PWLB loans. Therefore, the Council's total long-term debt remained at £598.3 million with an average interest rate of 2.55% at the end of the quarter. There was 1 short-term market loan undertaken in the quarter to manage cashflow, with £5 million borrowed for 14 days at 5.18% at the end of August.
- 5.3 Common Good and Charitable Fund balances held on fixed deposit with the Loans Fund remained the same at £2.294 million, with the average interest rate remaining at 3.95%. Funds held from associated bodies and organisations decreased from £4.299 million to £3.130 million over the quarter, in line with their own cash flow requirements, whilst the average rate paid on these funds increased from 4.46% to 4.69% 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 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 9 fixed rate deposits made in the quarter (totalling £45 million) at an average amount of £5 million and an average interest rate of 5.73% for an average term of 163 days. In comparison to the previous quarter to the end of June, fixed deposit activity in the current quarter decreased due to increased expenditure on the Capital programme and cash requirements reducing the

duration of investments. The deposits were all within the banking sector and for varying durations. As interest rates increased over the quarter, the average rate on investments also increased. The fixed deposits undertaken in the quarter will generate £1,192,960 in interest at their maturity.

Investments for Daily Cashflow Requirements

- 5.7 Cashflow surpluses which are required for more immediate needs were invested in the Council's instant access and Money Market Funds. The investment transactions in the quarter can be summarised as follows:
- The daily average amount of such funds increased from £6.1 million in the last quarter to £6.5 million in the current quarter.
 - The average interest rate achieved on these accounts over the quarter increased from 4.31% to 5.14% reflecting the increase in the base rate.
 - Money Market Funds, which operate on instant access terms, were used extensively over the quarter. The average amount invested increased from £8 million in the previous quarter to £8.1 million in the current quarter, whilst the average interest rate increased from 4.32% to 5.16%.
 - The increase in activity on these accounts reflected the need to retain an increased level of funds for more immediate cashflow purposes over the quarter.
 - Interest generated on these investments over the quarter amounted to £168,465.
- 5.8 The total amount of investments outstanding at 30 September 2023 was £133.133 million compared to £154.050 million at the end of the previous quarter. The overall average rate of interest on the investments outstanding increased from 4.50% at the end of the previous quarter to 5.34% at the end of the current quarter. This reflects increases in the Bank Base Rate over the quarter.
- 5.9 Income generated on investments undertaken during the quarter will total £1,361,425 at maturity (£2,044,499 in the quarter ended 30 June 2023). This measure reflects the total return on the investment activity undertaken in each quarter and is lower in comparison to the last quarter as fewer fixed term investments were undertaken and were for a shorter duration. However, investments in the current quarter were undertaken at higher interest rates.
- 5.10 All of the above investment activities are consistent with the Council's current investment strategy and cashflow requirements.

6. PROPOSED AMENDMENT TO INVESTMENT POLICY

- 6.1 The Council approved a revised investment policy at its meeting on 25 September 2019 (report 19/277 refers). The policy was amended to allow more flexibility in the Council's investment activity at a time of increased investment balances. The level of investments has, however, been reducing over the past 12 months as resources are applied to deliver the Capital programme. Cashflow requirements now necessitate that more of the

Council's funds are invested for shorter durations. The Council uses Money Market Funds for short term investments as they provide a higher rate of return than bank deposits and spread investment risk across a range of investments managed by the Fund.

- 6.2 It is therefore proposed to increase the limit for Money Market Funds from 10% of the total investment portfolio or £10 million (whichever is higher), to 20% or £20 million respectively for each individual Money Market Fund. All Money Market Funds used by the Council are rated AAA (the highest rating for creditworthiness), and therefore the risk arising from the proposed amendment is negligible.

7. COMPLIANCE

- 7.1 For the quarter ending 30 September 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).
- 7.2 Appendix III shows the list of approved counterparties, based on the Council's current lending policy, as at October 2023.
- 7.3 For the quarter ending 30 September 2023 the average closing cleared bank balance was £21,665.95 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.

8. INVESTMENT STRATEGY COMPLIANCE AND PERFORMANCE

- 8.1 The Treasury Investment Strategy for 2023/24 was approved by the Council at its meeting on 10 May 2023 (report 23/135 refers).
- 8.2 In the current quarter, the level of Council investments peaked at £172.125 million on 16 August 2023 and reduced to £133.133 million by the end of the quarter. The average daily investment balance over the quarter was £155.355 million, which decreased from an average of £168.004 million in the previous quarter and from £259.296 million in the same quarter of last year. This highlights the steadily increasing reduction in investment balances over the last year as funds are applied in financing the approved Capital programme.
- 8.3 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.
- 8.4 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.

8.5 The budgeted income in 2023/24 for Commercial Property investments is £1,826,501 whilst the latest projection is £1,820.878. There were no new property investments entered into during the quarter.

9. PRUDENTIAL INDICATORS

9.1 Prudential Indicators for 2023/24 to 2027/28 were approved by the Council at the meeting on 10 May 2023 (report 23/135 refers) as part of the Annual Treasury & Investment Strategy report.

9.2 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, particularly over the next two years, which reflects the current approved Capital Programme and increasing interest rates forecast over the period.

10. CONCLUSION

10.1 The Bank of England's MPC increased the Bank Base Rate from 5.0% to 5.25% at its meeting in August, however it was unchanged at the last meeting in September due to falling inflation rates.

10.2 Public Works Loans Board (PWLB) borrowing rates continued to be volatile over the quarter due to continued inflationary expectations and economic growth prospects. Shorter-term PWLB borrowing rates decreased over the quarter whilst longer term rates increased.

10.3 Investment activity in the quarter consisted of a reduced level of fixed term deposits, whilst instant access and Money Market Funds were used to meet day-to-day cashflow requirements. Investment rates increased over the quarter, however, the total level of investments outstanding reduced.

10.4 The Council adhered to its Investment Strategy and policies throughout the quarter, with no breaches in compliance. Revised limits for Money Market Funds are proposed to meet cashflow and investment requirements as the level of investments reduce. The Council's Prudential Indicators were also adhered to throughout the quarter.

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Approved

Name	Designation	Date
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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 July to 30 September 2023.

Appendix II – Summary of the Treasury Position and Transactions from 1 July to 30 September 2023.

Appendix III – Approved Investment Counterparty List.

Appendix IV – Monitoring of Prudential Indicators – Quarter ending 30 September 2023.