

PERTH & KINROSS COUNCIL

Finance & Resources Committee 24 April 2024

TREASURY ACTIVITY AND COMPLIANCE REPORT 2023/24 – 6 Months to 31 March 2024

Report by Strategic Lead, Finance & Business Support (Report No. 24/132)

1. PURPOSE

- 1.1 The purpose of this report is to update the Committee on Treasury Activity for the period 1 October 2023 to 31 March 2024 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.

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) maintained the UK Bank Base Rate at 5.25% over the period despite a steady reduction in CPI Inflation. Economic forecasts are that there will be reductions in the Base Rate later in the year. UK inflation fell from 6.7% in September 2023 to 3.2% in March 2024, which was the lowest rate since September 2021, primarily due to a slowdown in food inflation and energy costs. Additionally, the core inflation rate, which excludes volatile items such as energy and food costs, also dropped.
- 4.2 UK GDP (Gross Domestic Product) reduced by 0.3% at the end of 2023, resulting in the UK entering a mild recession, the first time since the Covid-19 outbreak in 2020. More recent economic data suggests the UK has returned to growth since the start of 2024.

- 4.3 Internationally, the Eurozone experienced a contraction in growth of 0.1% in the 3 months to 30 September 2023 and with no GDP growth in the quarter to 31 December. CPI Inflation continued to fall whilst interest rates were maintained over the period at 4.5%. In the US, GDP fluctuated over the period but increased overall, whilst inflation decreased over the period. The US interest rate remained in the range of 5.25% to 5.50% in March 2024.
- 4.4 The Public Works Loan Board's (PWLB) certainty fixed interest rates for the 6 months to 31 March 2024, which are based on yields on UK gilts, are shown in the graph at **Appendix I**. As a result of mixed economic data, borrowing rates showed continuing volatility over the period, however the rates were lower by the end of the period in all duration as inflation continued to ease.

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 period there were two new PWLB fixed maturity loans borrowed. These were borrowed for medium term durations due to their relatively lower rates, and with the expectation that longer term rates will fall over this period. Details of the loans borrowed are as follows:
- In December 2023, £20 million was borrowed for 6.5 years at 4.34%. This was borrowed under the PWLB's discounted HRA rate.
 - In March 2024, £10 million was borrowed for 4 years at 4.84%.
- 5.3 There was no repayment of maturing PWLB loans, however the balance of £140,000 on the Empty Homes Loan from the Scottish Government was repaid in March. Therefore, the Council's total long-term debt increased from £598.34 million at an average interest rate of 2.55% to £628.2 million at an average interest rate of 2.64% as at 31 March 2024. There was one short-term market loan borrowed in the period to manage cashflow, with £10 million borrowed for 7 days at 5.35% in November 2023. There were no such loans outstanding as at 31 March 2024.
- 5.4 Common Good and Charitable Fund balances held on fixed deposit with the Loans Fund increased from £2.294 million, with an average interest rate at 3.95%, at 30 September 2023 to £2.415 million at an average rate of 4.81% at the end of the current period. Funds held from associated bodies and organisations decreased from £3.130 million to £2.248 million over the period, in line with their own cash flow requirements, whilst the average rate paid on these funds decreased from 4.69% to 4.58% in line with the rates applicable on individual loans depending on the balance held.
- 5.5 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

- 5.6 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.
- 5.7 There were 12 fixed rate deposits made in the 6 months to 31 March 2024 (totalling £62.5 million) at an average amount of £5.2 million and an average interest rate of 6.53% for an average term of 27 days. In comparison to the previous quarter to the end of September, fixed deposit activity in the current period increased, however due to increased expenditure on the Capital programme and cash requirements, the lending duration of investments was shorter. The deposits were mainly to other Local Authorities and for very short durations covering the financial year end when borrowing demand was high. The average rate on investments in the current period also increased from 5.73% to 6.53%. The fixed deposits undertaken in the period will generate £278,696 in interest at their maturity.

Investments for Daily Cashflow Requirements

- 5.8 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 period can be summarised as follows:
- The daily average amount of such funds increased from £6.47 million in the previous quarter to £6.95 million at the end of the current period.
 - The average interest rate achieved on these accounts over the period increased from 5.14% to 5.32%.
 - Money Market Funds, which operate on instant access terms, were used extensively over the period. The average amount invested increased from £8.1 million in the previous quarter to £9.4 million in the current period, whilst the average interest rate increased from 5.16% to 5.34%.
 - The increase in activity on these accounts reflected the need to keep an increased level of funds for more immediate cashflow purposes over the period.
 - Interest generated on these investments over the 6 month period amounted to £391,776.
- 5.9 The total amount of investments outstanding as at 31 March 2024 was £65.533 million compared to £133.133 million at the end of September 2024. The overall average rate of interest on the investments outstanding increased from 5.34% to 6.48% over this period. This reflects increases in the available rates over the period.
- 5.10 Total income generated on investments undertaken during the period will total £670,472 at maturity (£1,361,425 in the quarter ended 30 September 2023). This measure reflects the total return on the investment activity undertaken in the period and is lower in comparison to the previous quarter as fixed term investments undertaken were for shorter durations, despite being at higher

interest rates and the current period being longer (6 months) in comparison to the previous quarter (3 months).

- 5.11 All of the above investment activities are consistent with the Council's current investment strategy and cashflow requirements.

6. COMPLIANCE

- 6.1 For the period ending 31 March 2024, 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 2024.
- 6.3 For the period ending 31 March 2024 the average closing cleared bank balance was £19,274.59 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 2023/24 was approved by the Council at its meeting on 10 May 2023 (report 23/135 refers).
- 7.2 In the current period, the level of the Council's investments peaked at £151.575 million on 18 October 2023 and reduced to £65.533 million by the end of March 2024. The average daily investment balance over the period was £102.743 million, which decreased from an average of £155.355 million in the previous quarter and from £221.754 million in the same period of last year. This highlights the steady reduction in investment balances over the last year as funds are applied in financing the approved Capital programme.
- 7.3 The Investment Strategy was applied in full over the period, with liquidity being maintained using instant access accounts and Money Market Funds as detailed in paragraph 5.8 above. There were no other risks identified in the period.
- 7.4 The Investment Strategy also incorporates investments held by the Common Good Funds. All such investments during the period 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.
- 7.5 The budgeted income in 2023/24 for Commercial Property investments is £1,826,501 whilst the latest projection is £1,821,000. There were no new property investments entered into during the current period.

8. PRUDENTIAL INDICATORS

- 8.1 Prudential Indicators for 2023/24 to 2027/28 were approved by the Council at its meeting on 10 May 2023 (report 23/135 refers) as part of the Annual Treasury & Investment Strategy report.
- 8.2 The latest estimates of the Prudential Indicators are shown in **Appendix IV** and are based on the Council's revised Capital Budget being considered at today's Committee meeting. These show that the Council adhered to all Prudential Limits in the period. However, the annual Loan Charges relative to the Net Revenue stream and the Capital Financing (Borrowing) Requirement show an increasing trend, which reflects the latest estimates for the Capital Programme and interest rate forecasts over the period.

9. CONCLUSION

- 9.1 The Bank of England's MPC left Bank Base Rate at 5.25% over the period to 31 March 2024. With inflation continuing to fall it is expected that the MPC will reduce the Base rate in the coming months.
- 9.2 Public Works Loans Board (PWLB) borrowing rates continued to be volatile over the period due to inflationary expectations and economic growth prospects, however the rates did decrease in all durations. There were two new PWLB fixed maturity loans borrowed in the period totalling £30 million.
- 9.3 Investment activity in the period consisted of an increased level of fixed term deposits but for shorter durations, whilst instant access and Money Market Funds were used to meet day-to-day cashflow requirement. Investment rates increased over the period, however, the total level of investments outstanding reduced.
- 9.4 The Council adhered to its Investment Strategy and policies throughout the period, with no breaches in compliance. The Council's Prudential Indicators were also adhered to throughout the period.

Author(s)

Name	Designation	Contact Details
John Jennings	Senior Accountant	CHXFinance@pkc.gov.uk

Approved

Name	Designation	Date
Scott Walker	Chief Finance Officer & Strategic Lead – Finance & Business Support	4 April 2024

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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 October 2023 to 31 March 2024.

Appendix II – Summary of the Treasury Position and Transactions from 1 October 2023 to 31 March 2024.

Appendix III – Approved Investment Counterparty List.

Appendix IV – Monitoring of Prudential Indicators – Period ending 31 March 2024.