

PERTH AND KINROSS COUNCIL

Strategic Policy & Resources Committee

24 November 2021

TREASURY ACTIVITY AND COMPLIANCE REPORT 2021/22 QUARTER 2

Report by the Head of Finance
(Report No. 21/216)

PURPOSE OF REPORT

The purpose of this report is to update the committee on Treasury Activity for the quarter ending 30th September 2021 and to report on compliance with the Council's Treasury Management Policy Statement (TMPS); Treasury Management Practices (TMPs); the Investment Strategy and the Prudential Indicators for the same period.

1. BACKGROUND / MAIN ISSUES

- 1.1 Treasury Management Practice 6 (TMP 6 - Reporting Requirements & Management Information Arrangements) requires that Loans Fund borrowing, and investment activities are reported quarterly to elected members. This report covers the second quarter of the financial year for the period 1 July to 30 September 2021.

2. ECONOMIC BACKGROUND

- 2.1 The Bank of England's Monetary Policy Committee (MPC) kept the UK Bank Base Rate at 0.10% throughout the quarter and maintained the Quantitative Easing programme at £895 billion. UK Gross Domestic Product (GDP) increased by 5.5% over the quarter to June 2021. Household consumption made the largest upward contribution, following the easing of Coronavirus restrictions, with the main contributors being the wholesale and retail trade, accommodation, and catering sectors. The rate of growth slowed in July and August and remains at 0.8% below pre-pandemic levels.
- 2.2 The UK unemployment rate fell to 4.5% in the three months to August 2021, the lowest in a year as the labour market recovers, however it was still slightly higher than before the pandemic. Average earnings (including bonuses) grew by 7.2% from June to August 2021, due to factors such as a fall in the proportion of lower paid employees which increases the overall average earnings. UK Consumer Price Inflation including housing costs (CPIH) rose by 3.0% in the 12 months to August 2021. The increase was due to a range of factors including the increase in the cost of gas, and the comparison to last year when the Eat Out to Help Out scheme was in place. Retail sales decreased month-on-month in August 2021 for the fourth consecutive month, by 0.9%.
- 2.3 Internationally, Eurozone GDP growth increased to 2.2% in the quarter to June 2021 whilst EU unemployment reduced to 7.5% in August 2021. In the US, the economy grew by 6.7% in the quarter to June 2021. The Federal

Reserve interest rate was unchanged at between 0% and 0.25%, whilst the quantitative easing programme also remained unchanged.

- 2.5 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 at Appendix I. PWLB borrowing rates in all durations reduced steadily over the first part of the quarter due to growing uncertainties over future economic growth, before increasing rapidly towards the end of the quarter. This latter rise was due to increasing inflation expectations which were expected to continue for an extended period. The increases in rates were higher for shorter durations (up 25 points over the quarter for 5-year borrowing), whilst the increases were smaller for longer durations (up 10 points for 50 years).

3. TREASURY ACTIVITY

- 3.1 A summary of the Council's treasury position and transactions is shown at Appendix II. The main activities are detailed below.
- 3.2 During the quarter there was no new long-term borrowing undertaken or repayment of PWLB loans. Therefore, the Council's total long-term debt remained at £528.8 million at an average interest rate of 2.74%. Further, there was no requirement for short-term borrowing to manage cashflows, and at the end of the quarter there was no short-term borrowing outstanding.
- 3.3 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 unchanged at 0.10%. Funds held from associated bodies and organisations increased from £3.341 million to £3.541 million over the quarter, in line with their own cash flow requirements, whilst the average rate paid on these funds reduced from 0.19% to 0.18%, in accordance with the approved Temporary Loan policy.
- 3.4 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

- 3.5 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 cashflow requirements allow.
- 3.6 There were only 2 fixed rate deposits made in the quarter totalling £10million with an average interest rate of 0.18% and for an average term of 184 days. Fixed deposits undertaken in the current financial year have been at a significantly reduced level due to the very low investment rates available. Consequently, maturing fixed term deposits undertaken last year with local authorities were reinvested into bank notice accounts and money market funds.

Investments for Daily Cashflow Requirements

- 3.7 Cashflow surpluses which arise and which are required for more immediate needs, usually within the next 3 months, are invested in the Council's instant access, notice deposit accounts and money market funds. The short-term investment transactions in the quarter can be summarised as follows:
- The daily average amount of such funds over the quarter decreased from £11.5million in the last quarter to £9.8 million in the current quarter.
 - The average interest rate achieved on these accounts over the quarter increased from 0.04% to 0.23% reflecting increased use of notice accounts of longer durations and higher rates.
 - Some of the funds were invested in a short duration money market fund to give higher returns but requiring a period of notice to be given.
 - Extensive use of instant access facilities over the quarter continued to meet day-to-day cashflow requirements. However, the interest rate on such facilities remains low at 0.01%.
- 3.8 The total amount of investments outstanding at the end of the quarter increased, closing at £203 million compared to £189 million at the end of the last quarter. The overall average rate of interest on the investments outstanding reduced from 0.52% at the end of the previous quarter to 0.42% at the end of the current quarter. The average rate of the Council's investments includes fixed-rate deals undertaken in previous quarters before interest rates fell significantly.
- 3.9 Total investment income generated on the investments undertaken during the quarter was £74,750. This measure reflects the total return on the investment activity undertaken in each quarter and is significantly higher in the current quarter compared to last quarter as more funds were available to invest in longer notice accounts.
- 3.10 All of the above investment activities are in line with the Council's approved investment strategy and cashflow requirements.

4. COMPLIANCE

- 4.1 For the quarter ending 30 September 2021, 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).
- 4.2 TMP4 also requires that a working list of specific approved counterparties (including lending limits) is maintained by the Head of Finance. This list is continuously reviewed and updated for any movements in credit ratings and other relevant factors including press coverage or emerging issues. Appendix III shows the list of approved counterparties, based on the current lending policy, as at October 2021.

- 4.3 A further requirement of TMP4 is to measure cashflow performance, which is expressed as the average closing cleared bank balance for the period. For the quarter ending 30 September 2021 the average closing cleared bank balance was £26,578.52 in credit.

5. INVESTMENT STRATEGY COMPLIANCE AND PERFORMANCE

- 5.1 The Treasury Investment Strategy for 2021/22 was approved by the Council at its meeting on 31 March 2021 (report 21/42 refers).
- 5.2 In the current quarter the actual level of investments peaked at £217.985 million on 18 August and reduced to £203.068 million by the end of the quarter. The average daily investment balance over the quarter was £203.095 million, which decreased from an average of £228.988 million in the previous quarter and decreased from £225.345 million in the same quarter of last year. These variations reflect the use of funds in the current quarter to meet the Council's daily cashflow requirements.
- 5.3 The Council does not require to undertake any long-term borrowing in the current year, and it is therefore anticipated that the investment balances will gradually reduce (subject to daily fluctuations) over the next year in line with forecast cashflows. However, with continued volatility and low PWLB rates, some long-term borrowing may be considered to support the Council's ongoing Capital programme and increasing borrowing requirements over time. Any such borrowing would increase the level of investments in the short term.
- 5.4 The Investment Strategy was applied in full over the quarter, with liquidity being maintained using instant access accounts, notice accounts and money market funds as detailed in paragraph 3.7 above. There were no other risks identified in the quarter.
- 5.5 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.
- 5.6 The budgeted income in 2021/22 for Commercial Property investments is £1,819,000 whilst the latest projection for the year is £1,826,000. There were no new property investments entered into during the quarter.

6. PRUDENTIAL INDICATORS

- 6.1 Revised Prudential Indicators for 2020/21 to 2028/29 were approved by the Council at the meeting on 7 October 2020 (report 20/179 refers) as part of the Annual Treasury & Investment Strategy report.
- 6.2 The latest estimates of the Prudential Indicators, in line with the Council's current approved Capital Budget and Capital Financing (borrowing) requirements, are shown at Appendix IV.

- 6.3 The indicators for Financing Costs remain at a relatively low level as a result of continuing low interest rates, as well as pro-active treasury management. They also reflect the current estimates for new borrowing each year and the latest forecast for interest rates. As a result, they fluctuate within a relatively narrow range each year, reflecting a stable budgetary position. However, the Council's estimated total Financing Costs are on an increasing trend over the longer term, reflecting the increase in budgeted levels of Capital expenditure funded by borrowing, as well as interest rates being expected to rise over the coming years.
- 6.4 The movements in estimated Capital Expenditure and the Capital Financing Requirement reflect movements on the Composite Capital and Housing Investment programmes approved by the Council. Current estimates have increased following significant slippage during the lockdown restrictions last year carrying over into the current programme. In addition, the Council approved additional borrowing of £35.4 million at its meeting on 6 October 2021 (report 21/181 refers).
- 6.5 As a result of the additional borrowing approved by Council in October, it is anticipated that the current borrowing Authorised Limit (expected maximum borrowing needed) of £900,000,000 will be breached by 2024/25. In order to deliver the Capital Programme, this Limit will require to be increased by the Council which will form part of the recommendations to elected members in the annual update of the Council's Treasury & Investment Strategy.

7. CONCLUSION AND RECOMMENDATIONS

- 7.1 Treasury Management activity in the quarter mostly related to the use of instant access, notice accounts and money market funds to meet short term liquidity requirements together with two fixed rate deposits undertaken. The total level of investments increased over the quarter in line with cashflow requirements. There was no long-term or short-term borrowing or repayments over the quarter.
- 7.2 The Council adhered to its Investment Strategy and policies throughout the quarter, with no breaches in compliance. However, the Council will need to consider increasing the Authorised Limit for borrowing in order to deliver the current Capital Programme.
- 7.3 It is recommended that the committee notes the content of this report, which is submitted in accordance with the Council's approved Treasury Management Practices.

Author(s)

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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	No
Asset Management (land, property, IST)	No
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 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 July to 30 September 2021.
- Appendix II – Summary of the Treasury Position and Transactions from 1 July to 30 September 2021.
- Appendix III – Approved Investment Counterparty List
- Appendix IV – Monitoring of Prudential Indicators – Quarter ending 30 September 2021