

# PERTH AND KINROSS COUNCIL

Finance & Resources Committee  
13 September 2023

## TREASURY ACTIVITY AND COMPLIANCE REPORT 2023/24 QUARTER 1

Report by Head of Finance  
(Report No. 23/244)

### 1. PURPOSE

- 1.1 The purpose of this report is to update the Committee on Treasury Activity for the quarter ending 30 June 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.

### 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 4.25% to 4.50% at its meeting on 11 May 2023 and to 5% on 22 June and 5.25% on 3 August 2023. These increases were in response to CPI inflation remaining significantly higher than the Bank's target rate of 2%. However, whilst UK inflation remained unchanged at 8.7% in May, it fell more than expected to 7.9% in June, and then reduced further to 6.8% in July mainly due to lower fuel prices. UK retail sales for June rose by 0.7%, which was higher than forecast. UK unemployment rose to 4% in the period March to May 2023, whilst wages rose 6.9% from a year ago.
- 4.2 UK Gross Domestic Product (GDP) showed little growth in the 3 months to March 2023, rising by 0.1%, with initial indications that growth in the next quarter was around the same level.

- 4.3 Internationally, the Eurozone experienced no GDP growth in the quarter to 31 March 2023. CPI Inflation reduced due to falling energy prices, whilst interest rates were increased by 0.25% in June. In the US, GDP and inflation both fell. The US interest rate was increased to the range of 5.00% to 5.25% in May 2023, with a further increase to between 5.25% and 5.50% in July 2023.
- 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 at Appendix I. PWLB borrowing rates showed continuing volatility and increased over the quarter, particularly in respect of the shorter borrowing periods. This was due to the impact of base rate increases (including anticipated future increases), continued inflationary pressures, and economic growth prospects in the UK relative to other major economies. Over the 3-month period, all rates were higher by the end of the quarter.
- 4.5 When the Council last undertook significant new borrowing from the PWLB in 2019/20 and 2020/21, £260 million was borrowed at an average interest rate of 1.67% over a period of 47.8 years. Borrowing £260 million from the PWLB over the same duration would now incur an interest rate of approximately 5.06%, equivalent to an annual increase in interest charges of £8.8 million. A similar comparison of the Council's borrowing over the last 10 years at 2.16% also highlights that borrowing at the current time incurs costs that are over double historic costs.
- 4.6 The Council has a requirement to undertake new borrowing of approximately £510 million to finance the approved Capital budget over the period 2023/24 to 2027/28. The expectation is that PWLB rates on long term borrowing will potentially not fall below 4% until mid-2025. As previously reported, this marked increase in the cost of borrowing will be a significant factor when members determine the Council's strategic investment priorities in setting an affordable Capital budget in February / March of next year.

## **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, however, a 9-year PWLB fixed-rate loan for £5 million at 3.30% matured and was repaid in the quarter. Therefore, over the quarter the Council's total long-term debt reduced from £603.3 million to £598.3 million. The average interest rate on long-term debt was 2.55% at the end of the quarter. There were 2 short-term market loans undertaken to manage cashflow, the first for £5 million for 28 days at 4.14% and the second for £4 million for 16 days at 4.12%. Both of these loans were repaid in the quarter.
- 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 paid increasing from 3.93% to 3.95%. Funds held from associated bodies and organisations increased from £3.117 million to £4.299 million over the quarter, in line with their own cash flow requirements, whilst the average rate paid on these funds increased from 3.63% to 4.46% 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 £53 million) at an average amount of £4.78 million and an average interest rate of 5.58% for an average term of 280 days. Therefore, fixed deposit activity in the current quarter decreased from the previous quarter to 31 March 2023 (£92 million) mainly due to increased expenditure on the Capital programme and cash requirements at the start of the new financial year. The deposits were spread between different banking sectors and other local authorities, and for varying durations. As interest rates increased over the quarter, the average rate on investments also improved. Fixed deposits undertaken in the quarter will generate £1,899,717 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 and money market funds. These investment transactions in the quarter can be summarised as follows:
- The daily average amount of such funds increased from £4.4 million in the last quarter to £6.1 million in the current quarter.
  - The average interest rate achieved on these accounts over the quarter increased from 3.64% to 4.31% 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 £6.5 million in the previous quarter to £8 million in the current quarter, whilst the average interest rate increased from 3.72% to 4.32%.
  - The increase in activity on these accounts reflected the need to keep more funds for more immediate cashflow purposes over the quarter.
  - Interest generated on these investments over the quarter amounted to £144,782.
- 5.8 The total amount of investments outstanding at 30 June 2023 was £154.050 million compared to £173.650 million at the end of the previous quarter. The overall average rate of interest on the investments outstanding increased from 3.76% at the end of the previous quarter to 4.50% 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 £2,044,499 on maturity. 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. 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. COMPLIANCE**

- 6.1 For the quarter ending 30 June 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 August 2023.
- 6.3 For the quarter ending 30 June 2023 the average closing cleared bank balance was £20,195.61 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 quarter, the level of Council investments peaked at £191.925 million on 19 April 2023 and reduced to £154.050 million by the end of the quarter. The average daily investment balance over the quarter was £168.004 million, which decreased from an average of £205.159 million in the previous quarter and from £256.348 million in the same quarter 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 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.
- 7.4 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.
- 7.5 The budgeted income in 2023/24 for Commercial Property investments is £2,004,000. There were no new property investments entered into during the quarter.

## **8. PRUDENTIAL INDICATORS**

- 8.1 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.
- 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 4.25% to 5% over the quarter due to continued inflationary pressures, with a subsequent increase to 5.25% in August 2023.
- 9.2 Public Works Loans Board (PWLB) borrowing rates continued to be volatile over the quarter due to continued inflationary expectations and economic growth prospects. All PWLB borrowing rates increased over the quarter and are now currently around three times higher in comparison to the borrowing rates previously secured by the Council on long-term borrowing undertaken in 2019/20 and 2020/1.
- 9.3 Investment activity in the quarter consisted mainly of the use of fixed deposits, but at a reduced level from the previous quarter. Instant access and Money market funds were used to meet day-to-day cashflow requirement. Investment rates 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.
- 9.5 The Council's Prudential Indicators were also adhered to throughout the quarter.

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**Approved**

<b>Name</b>	<b>Designation</b>	<b>Date</b>
Stewart MacKenzie	Head of Finance	30 August 2023
Karen Donaldson	Chief Operating Officer	30 August 2023

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## 1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

<b>Strategic Implications</b>	<b>Yes / None</b>
Community Plan / Single Outcome Agreement	None
Corporate Plan	Yes
<b>Resource Implications</b>	
Financial	Yes
Workforce	None
Asset Management (land, property, IST)	None
<b>Assessments</b>	
Equality Impact Assessment	Yes
Strategic Environmental Assessment	Yes
Sustainability (community, economic, environmental)	Yes
Legal and Governance	None
Risk	None
<b>Consultation</b>	
Internal	Yes
External	None
<b>Communication</b>	
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 April to 30 June 2023.
- Appendix II – Summary of the Treasury Position and Transactions from 1 April to 30 June 2023.
- Appendix III – Approved Investment Counterparty List.
- Appendix IV – Monitoring of Prudential Indicators – Quarter ending 30 June 2023.