

PERTH AND KINROSS COUNCIL

23 June 2021

TREASURY ACTIVITY AND COMPLIANCE REPORT 2020/21 QUARTER 4

Report by Head of Finance (Report No. 21/100)

PURPOSE OF REPORT

The purpose of this report is to update the Council on the Treasury Activity for the quarter ending 31 March 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 the Council. This report covers the fourth quarter of the financial year for the period from 1 January to 31 March 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 at £895 billion for the year. UK Gross Domestic Product (GDP) increased by 1% between October to December. Despite two consecutive periods of growth the economy still remains 7.8% lower than before the pandemic. Government expenditure grew with higher spending on healthcare and Education whilst household consumption decreased due to lower spending in restaurants and hotels due to the reintroduction of covid-19 restrictions.
- 2.2 The UK unemployment rate increased to 5.0% in the three months to January 2021, it's the highest rate since August 2016, as the pandemic continued to impact the labour market. However, increases in unemployment were lower than previously forecast due to the continuation of the government Job Retention scheme. Average earnings grew by 4.2% in the year to January 2021, however, the increase is partly driven by a reduction in low paid jobs in the UK caused by the pandemic. UK Consumer Price Inflation including housing costs (CPIH) increased to 0.7% in the 12 months to February 2021, mainly due to increasing transport costs. Retail sales decreased year-on-year in January 2021 by 5.9%.
- 2.3 Internationally, Eurozone GDP growth decreased by 0.7% in the quarter to December 2020, whilst EU unemployment remained the same as the previous month at 8.1% in January 2021.

- 2.4 In the US, the economy grew by 4.1% in the quarter to December 2020 after increasing by 33.4% in the previous quarter following the easing of restrictions. However, GDP is still 3.5% below its pre-pandemic level. 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. Whilst still around historically low levels, rates for all borrowing periods increased over the quarter. The successful rollout of the vaccination programme has increased expectations for the lifting of restrictions and the recovery of the UK economy.

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 the repayment of one maturing fixed rate PWLB loan for £5 million at a rate 3.79% over 9.5 years, whilst there was no new long term borrowing undertaken. Therefore, over the quarter the Council's total long-term debt reduced from £538.8 million to £533.8 million and the average interest rate reduced from 2.76% to 2.75%.
- 3.3 The need for short term borrowing to manage cashflow increased during the quarter due to ongoing expenditure pressures in responding to the covid-19 pandemic, in advance of receiving funding support. At the end of the quarter, there were 6 loans outstanding totalling £49 million at an average rate of 0.07%. All of these loans were for periods of up to 3 months and will be repaid by June. Temporary borrowing rates fluctuated over the quarter as local authority demand and the availability of funds varied.
- 3.4 Common Good and Charitable Fund balances held on fixed deposit within the Loans Fund increased slightly from £2.097 million to £2.169 million, with the average interest rate paid remaining unchanged at 0.10%. Funds held from associated bodies and organisations decreased from £3.013 million to £2.834 million over the quarter, in line with their own cash flow requirements, whilst the average rate paid on these funds increased slightly from 0.18% to 0.19%, in accordance with the approved Temporary Loan policy. The increase in the average rate is due to one temporary loan being at a higher rate due to its larger balance.
- 3.5 Short term cashflow surpluses were 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

3.6 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 cashflow requirements allow. The activity for the quarter can be summarised as follows:-

- There were 5 fixed deposits made in the quarter, compared to 3 in the previous quarter.
- The average deposit amount was £7.9 million, a reduction from £10 million in the previous quarter.
- The average period of the deposits was 479 days, an increase from 370 days in the previous quarter. This average is skewed by a 2-year deposit of £20 million undertaken in the quarter.
- For comparison, the average duration of deposits made in the quarter for 1 year or less was 222 days.
- All the deposits in the current quarter were made with other local authorities, some arranged several months in advance when there was higher demand and thus higher rates than those currently available.
- The average rate achieved increased to 0.52% in the quarter from 0.44% in the previous quarter reflecting the longer average duration of the deposits.

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. During the quarter, there was an increased cashflow requirement as the Council responded to the impact of the pandemic and increased Capital expenditure. The short-term investment transactions in the quarter can be summarised as follows:-

- The daily average amount of such investments held over the quarter increased from £7.7 million in the last quarter to £10.5 million in the current quarter.
- The average interest rate achieved on these accounts over the quarter decreased from 0.28% to 0.03% reflecting falling market rates and the more extensive use of instant access facilities over the quarter.

3.8 The total amount of investments outstanding at the end of the quarter increased, closing at £236.7 million compared to £211.5 million at the end of the last quarter. The overall average rate of interest earned on the investments outstanding reduced from 0.59% at the end of the previous quarter to 0.54% 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 Over the quarter the interest rate receivable on most instant access and Money Market Funds had remained at 0.01% or less, reflecting the banks reluctance to hold large cash balances for shorter periods. Due to cashflow requirements, less use of notice accounts was made due to the need to keep cash balances more readily available.
- 3.10 Total investment income generated on the investments undertaken during the quarter was £356,381. This measure reflects the total return on the investment activity undertaken in each quarter.
- 3.11 All of the above investment activities are consistent with the Council's current investment strategy and cashflow requirements.

4. COMPLIANCE

- 4.1 For the quarter ending 31 March 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 April 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 31 March 2021, the average closing cleared bank balance was £35,000 in credit. This reflects the use of the Royal Bank of Scotland's automatic overnight "sweep" facility over the whole quarter, where each night the bank sweeps (transfers) any funds in excess of £35,000 in the Council's bank accounts to the Council's instant access account.

5. INVESTMENT STRATEGY COMPLIANCE AND PERFORMANCE

- 5.1 The Treasury Investment Strategy for 2020/21 was approved by the Council at its meeting on 7 October 2020 (report 20/179 refers).
- 5.2 In the current quarter the actual level of investments peaked at £249.5 million on 16 March and reduced to £236.7 million by the end of the quarter. This followed the receipt of short term borrowing in the quarter and additional Covid-19 grant funding from the Scottish Government at the end of March. The average daily investment balance over the quarter was £230.2 million, which decreased slightly from an average of £233.1 million in the previous quarter and £175.1 million in the same quarter of last year. These variations reflect the level of short-term borrowing undertaken in the current quarter to meet the Council's daily cashflow requirements. As the Council is not expecting to undertake any long-term borrow borrowing in the next year, it is anticipated that the investment balances will gradually reduce (subject to daily fluctuations) over the next year in line with forecast cashflows.

- 5.3 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 Section 3.7 above. There were no other risks identified in the quarter.
- 5.4 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 the Investment Strategy.
- 5.5 The budgeted income in 2020/21 for Commercial Property investments is £1,871,000, whilst the latest projections for the year is £1,818,000. There were no new property investments entered into during the quarter. In light of the ongoing pandemic (Covid-19) there is, however, increased risk in terms of rents being collected in the short to medium term within the commercial portfolio.

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 indicator for Financing Costs remains 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 only fluctuate within a narrow range each year, reflecting a stable budgetary position. However, the 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 gradually 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 Strategic Policy & Resources Committee and the Council. These reflect significant slippage in the Capital Budget in the current year as a result of the lockdown and ongoing covid-19 restrictions, however, they are expected to increase significantly over the next three years.

7. CONCLUSION AND RECOMMENDATIONS

- 7.1 Treasury Management activity in the quarter included the use of instant access, notice accounts and money market funds to meet short term liquidity

requirements, and some fixed rate deposits for longer investments. There was an increase in short-term borrowing over the quarter due to the timing difference between the level of covid-related expenditure incurred by the Council and the receipt of government funding. The total level of investments increased over the quarter, reflecting both the additional short-term borrowing and grant funding received, particularly towards the end of the quarter. There was one PWLB loan repaid at maturity in the quarter, with no new long-term borrowing undertaken.

- 7.2 The Council adhered to its Investment Strategy and policies throughout the quarter, with no breaches in compliance.
- 7.3 It is recommended that the Council notes the content of this report, which is submitted in accordance with the Council's approved Treasury Management Practices.

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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 January to 31 March 2021.
- Appendix II – Summary of the Treasury Position and Transactions from 1 January to 31 March 2021.
- Appendix III – Approved Investment Counterparty List
- Appendix IV – Monitoring of Prudential Indicators – Quarter ending 31 March 2021