

The Highland Council

Resources Committee – 26 November 2014

Agenda Item	7
Report No	RES/60/14

Treasury Management - Summary of Transactions

July, August and September 2014

Report by Director of Finance

Summary

This report on the treasury management transactions undertaken within the period is submitted to Committee in compliance with CIPFA's Code of Practice on Treasury Management and the Council's approved Financial Regulations.

This report is produced in support of the Council's corporate governance process, which in turn is designed to support/augment the Council's overall/corporate delivery of all its obligations in terms of the Single Outcome Agreement.

1. Background

- 1.1 This report sets out treasury management transactions during the period, reflecting activity undertaken to manage the Council's cash flows, and borrowing to fund capital expenditure.
- 1.2 In managing the Council's cash flow position, the Finance Service will look to take external Public Works Loan Board (PWLB) borrowing at the most opportune time, to take advantage of the historically low interest rates available. At present the predicted underspend on loan charges for 2014/15 is £2m.
- 1.3 The Council will also consider short-term borrowing opportunities, and during the period temporary loans were taken, to take advantage of low interest rates and meet the Council's short-term cashflow requirements.
- 1.4 During July 2014, £0.430m was borrowed from the PWLB, this was on behalf of the National Housing Trust for its Kiltarlity programme and during September 2014 a further £0.920 was borrowed for its Ardersier programme. In order to finance our capital programme commitments and to capture a favourable rates position, £20m was also borrowed from the PWLB during September.
- 1.5 There was also temporary borrowing undertaken in July and September in order to manage cash flows and in anticipation of short term rates rising as we move towards December.
- 1.6 It should be noted that the average interest rate on deposits continues to be low due to the low rates on call accounts and money market funds attributable to the

current market environment.

- 1.7 When placing temporary deposits (lending) the Council uses a creditworthiness matrix provided by Capita Treasury Services Ltd to assess the risks involved in lending to individual counterparties. The Council's lending policy is constantly monitored in conjunction with the matrix. This affords a balance of operational flexibility and risk awareness in managing the Council's temporary investments.
- 1.8 Details of the Council's investment policy, the credit rating of these counterparties, and deposits held as at 30 September 2014, are at Appendix 1.
- 1.9 The Council's Treasury Management Policy is regularly reviewed.

2. Implications

- 2.1 The resource implications are covered in the attached tables. There are no Legal; Equalities; Climate Change/Carbon Clever; Risk; Gaelic and Rural implications relating to this report.

3. Recommendation

It is recommended that the Committee consider the Treasury Management Summary of Transactions reports.

Please see attached Tables

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Background Papers:	Loan Documentation, Financial Ledger

Treasury Management - Summary of Transactions for the Month to 31 July 2014

Type of Borrowing	Outstanding debt at start of month £	Raised £	Repaid £	Outstanding debt at end of month £	Average Interest Rate	
					beg %	end%
Public Works Loan Board	584,880,650	430,000	0	585,310,650	5.02	5.02
Mortgage Bonds	118,056,000	0	0	118,056,000	4.87	4.87
Temporary Loans	22,200,000	2,000,000	(3,000,000)	21,200,000	0.42	0.41
Bank Balance	(94,074)	0	(25,409)	(119,483)		
GROSS EXTERNAL BORROWING	725,042,576	2,430,000	(3,025,409)	724,447,167		
<i>Temporary Deposits</i>	(79,413,900)	(65,877,800)	50,474,600	(94,817,100)	0.54	0.54
NET EXTERNAL BORROWING	645,628,676	(63,447,800)	47,449,191	629,630,067		
Total average					4.86	4.86
Budgeted LF rate 2013/14					4.94	

Borrowing / Lending internal parameters as per approved Treasury Management Practices **Actual %** **Approved Max%**

Short term borrowing (net of investments) as % of the Council's outstanding long term debt	(10.48)	25.00
Borrowing at variable rates of interest as % of the Council's total outstanding loan debt	5.38	35.00

Treasury Management - Summary of Transactions for the Month to 31 August 2014

Type of Borrowing	Outstanding debt at start of month £	Raised £	Repaid £	Outstanding debt at end of month £	Average Interest Rate	
					beg %	end%
Public Works Loan Board	585,310,650	0	0	585,310,650	5.02	5.02
Mortgage Bonds	118,056,000	0	0	118,056,000	4.87	4.87
Temporary Loans	21,200,000	0	(5,000,000)	16,200,000	0.41	0.44
Bank Balance	(119,483)	19,993	0	(99,490)		
GROSS EXTERNAL BORROWING	724,447,167	19,993	(5,000,000)	719,467,160		
<i>Temporary Deposits</i>	<i>(94,817,100)</i>	<i>(52,154,800)</i>	73,859,100	<i>(73,112,800)</i>	0.54	0.54
NET EXTERNAL BORROWING	629,630,067	(52,134,807)	68,859,100	646,354,360		
Total average					4.86	4.89
Budgeted LF rate 2014/15					4.94	
<u>Borrowing / Lending internal parameters as per approved Treasury Management Practices</u>					<u>Actual %</u>	<u>Approved Max%</u>
Short term borrowing (net of investments) as % of the Council's outstanding long term debt					(8.11)	25.00
Borrowing at variable rates of interest as % of the Council's total outstanding loan debt					8.68	35.00

Treasury Management - Summary of Transactions for the Month to 30 September 2014

Type of Borrowing	Outstanding debt at start of month £	Raised £	Repaid £	Outstanding debt at end of month £	Average Interest Rate	
					beg %	end%
Public Works Loan Board	585,310,650	20,920,000	0	606,230,650	5.02	4.98
Mortgage Bonds	118,056,000	0	0	118,056,000	4.87	4.87
Temporary Loans	16,200,000	33,500,000	(3,700,000)	46,000,000	0.44	0.46
Bank Balance	(99,490)	0	(110,782)	(210,271)		
GROSS EXTERNAL BORROWING	719,467,160	54,420,000	(3,810,782)	770,076,379		
<i>Temporary Deposits</i>	<i>(73,112,800)</i>	<i>(75,548,500)</i>	42,812,800	<i>(105,848,500)</i>	0.54	0.52
NET EXTERNAL BORROWING	646,354,360	(21,128,500)	39,002,018	664,227,879		
Total average					4.89	4.89
Budgeted LF rate 2014/15					4.94	
Borrowing / Lending internal parameters as per approved Treasury Management Practices					Actual %	Approved Max%
Short term borrowing (net of investments) as % of the Council's outstanding long term debt					(8.29)	25.00
Borrowing at variable rates of interest as % of the Council's total outstanding loan debt					4.74	35.00

**The Highland Council - Finance, Housing and Resources Committee
Treasury Management - Prudential Indicators**

a) External Debt

Month	Authorised Limit*	Operational Boundary**	Month End	Min Position during month	Max Position during month
31 July 2014	£916.5m	£854.5m	£724.6m	£724.6m	£727.1m
31 August 2014	£916.5m	£854.5m	£719.6m	£719.6m	£719.6m
30 September 2014	£916.5m	£854.5m	£770.3m	£719.6m	£770.3m

* **The Authorised Limit** represents an upper limit of borrowing that could be afforded in the short term but may not be sustainable over the longer term. This limit includes a risk assessment of exceptional events taking into account the demands of revenue and capital cash flows. The Authorised Limit gauges events that may occur over and above those transactions which have been included in the Operational Boundary. The limits effective from 01/04/14 are set out in the Treasury Management Strategy Statement 2014/15 (approved by Council 13/03/14).

** **The Operational Boundary** represents an estimate of the most likely, prudent, but not worst case scenario and provides a parameter against which day to day treasury management activity can be monitored.

b) Debt Net of Investments

Month	Upper Limit Fixed	Upper Limit Variable	Month End Fixed	Month End Variable
31 July 2014	£825.5m	£288.9m	£595.7m	£33.9m
31 August 2014	£825.5m	£288.9m	£590.2m	£56.1m
30 September 2014	£825.5m	£288.9m	£632.7m	£31.5m

c) Maturity Structure of Fixed Rate Borrowing

Fixed Rate Borrowing	Under 12 months	12 months and within 24 months	24 months and within 5 years	5 years and within 10 years	10 years and above
Upper Limit	30%	30%	30%	50%	100%
Lower Limit	N/A	N/A	N/A	N/A	25%
As at 31 July 2014	4.9%	3.4%	11.8%	11.9%	68.0%
As at 31 August 2014	4.2%	3.4%	11.8%	12.0%	68.6%
As at 30 September 2014	8.3%	3.2%	11.2%	11.2%	66.1%

Appendix 1

Credit worthiness policy and assessment

This Council uses the creditworthiness service provided by Capita Treasury Services. This service employs a sophisticated modelling approach with credit ratings from all three rating agencies - Fitch, Moodys and Standard and Poors. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies
- Credit Default Swaps (CDS) spreads to give early warning of likely changes in credit ratings
- sovereign ratings to select counterparties from only the most creditworthy countries

This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are also used by the Council to determine the duration for investments.

- All credit ratings are monitored from a weekly list which can be updated daily by Capita. The Council is alerted to changes to ratings of all three agencies as these occur through its use of the Capita creditworthiness service.
- if a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, immediate consideration will be given to whether funds should be withdrawn from this counterparty and the timescale for doing this.
- in addition to the use of Credit Ratings the Council will be advised of information in movements in Credit Default Swap against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Councils lending list.

Based on the Capita approach, the Council will therefore use counterparties within the following durational bands:

Purple	2 years
Blue	1 year (only applies to nationalised or semi nationalised UK Banks)
Orange	1 year
Red	6 months
Green	100 days
No Colour	Not to be used

Sole reliance will not be placed on the use of this external service. In addition the Council will also use market data and market information, information on government support for banks and the credit ratings of that government support.

In relation to Money Market Funds, the Council will use Capita's weekly investment monitor, and other regular updates, to ensure its MMF counter-parties meet the minimum credit criteria described in the table above.

As set out within the Prudential Indicators, a limit is set on the value of Treasury Investments which can be invested for more than 364 days. The limit is £20m, which represents the maximum sum invested for longer than 364 days. Though the period of investment must be decided using Capita credit ratings and maximum limits in permitted investments.

Stage 3 – Counter-party Limits

The limits described below apply to the Council's treasury management operations. Separate limits apply for the Pension Fund, with Highland Council limits relating to all operations excluding the Pension Fund.

Due to market volatility in treasury management investments and varying levels of investment it is possible that at any time in the year one category of investment could represent 100% of the portfolio although it is likely that investments will carry greater diversification than this.

No more than £15m can be invested with any single counterparty, with the exception of the nationalised or semi nationalised UK banks where no more than £25m can be invested in each bank.

The Council will place overnight and call deposits with the Council's bankers irrespective of credit rating. The limit on placing call deposits with the Council's bankers is currently £10m for the Highland Council bank accounts.

The Highland Council Pension Fund will place overnight and call deposits with the Council's bankers irrespective of credit rating. The limit on placing call deposits with the Council's bankers is currently £10m. The Pension Fund may also utilise other bank facilities, with a £10m limit applying to each.

List of Counterparties, counterparty limit and credit rating

The following table is a list of current counterparties used, the Capita credit rating as at 30 September 2014 and amounts deposited.

Counterparty	Type of deposit	Duration of deposit	Capita credit rating (Sept 2014)	Deposit amount	Total amount with counterparty	Counterparty limit	Rate (Sep 2014)
Nationwide Building Society	Fixed term deposits	92 days	Red - 6 months	3,700,000.00	11,200,000.00	15,000,000.00	0.49%
Nationwide Building Society	Fixed term deposits	88 days	Red - 6 months	5,500,000.00			0.50%
Nationwide Building Society	Fixed term deposits	71 days	Red - 6 months	2,000,000.00			0.48%
Goldman Sachs	Fixed term deposits	99 days	Green - 100 days	5,000,000.00	10,000,000.00	15,000,000.00	0.51%
Goldman Sachs	Fixed term deposits	91 days	Green - 100 days	5,000,000.00			0.48%
Bank of Scotland	Fixed term deposits	224 days	Blue -12 months	5,000,000.00	24,200,000.00	25,000,000.00	0.72%
Bank of Scotland	Fixed term deposits	196 days	Blue -12 months	5,000,000.00			0.70%
Bank of Scotland	Fixed term deposits	183 days	Blue -12 months	5,000,000.00			0.70%
Bank of Scotland	Fixed term deposits	232 days	Blue -12 months	4,000,000.00			0.70%
Bank of Scotland	Fixed Term deposits	94 days	Blue – 12 months	5,000,000.00			0.57%
Bank of Scotland	Call account	N/A	Blue -12 months	200,000.00			0.40%
Clydesdale Bank (bankers)	Call account	N/A	No colour - zero	11,200,000.00*	11,200,000.00	10,000,000.00	0.50%
Clydesdale Bank (bankers)	Cash Management A/c	N/A	No colour - zero	48,500.00	48,500.00	N/A	0.10%
Royal Bank of Scotland	Call account	N/A	Blue – 12 months months	300,000.00	300,000.00	25,000,000.00	0.25%
Barclays Bank plc	Call account	N/A	Red - 6 months	15,000,000.00	15,000,000.00	15,000,000.00	0.55%

Counterparty	Type of deposit	Duration of deposit (months)	Capita credit rating	Deposit amount	Total amount with counterparty	Counterparty limit	Rate
Santander Business Reserve Account	Call account	N/A	Red - 6 months	3,800,000.00	3,900,000.00	15,000,000.00	0.40%
Santander 30 day notice account	30 day notice account	N/A	Red - 6 months	100,000.00			0.45%
Ignis Asset Management	Call account	N/A	Triple A rated	15,000,000.00	15,000,000.00	15,000,000.00	0.48%
Insight Investment	Call account	N/A	Triple A rated	500,000.00	15,000,000.00	15,000,000.00	0.43%
TOTAL					105,848,500.00		

* as stated in the Treasury Management Strategy statement for unavoidable short term operational reasons, limits are occasionally breached and this is communicated to management immediately. This was the case on the 30 September when the receipt of 2 large Non Domestic Rate amounts paid in cleared funds during the afternoon which meant the limit with the Clydesdale was breached overnight only.