

The Highland Council

Resources Committee – 24 February 2016

Agenda Item	11(a)
Report No	RES/10/16

Treasury Management - Summary of Transactions

October, November and December 2015

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.

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 borrowing requirement, the Finance Service aims to take medium to long term borrowing at the most opportune time, to take advantage of the lowest interest rates available. However the strategy for 2015/16 is to make the best use of the low rates currently available on temporary short term borrowing but to monitor long term borrowing rates and to act to minimise exposure to the risk of interest rate increases.
- 1.3 During the period October to December 2015, the following long-term borrowing was undertaken from the PWLB in order to finance the National Housing Trusts (NHT).

Month	Amount	Purpose of borrowing	Duration	Rate
Dec 2015	£1.35m	NHT – Academy Street	6.5 years	2.31%

- 1.4 When managing the Council's cash flow the Finance Service will consider short-term borrowing opportunities, in order to meet the Council's short-term cash flow requirements. There was temporary borrowing of £31.0m undertaken in the period October to December 2015 and £23.0m of temporary loans were repaid during this period.
- 1.5 The rates on call accounts and money market funds for short term deposits continue to be low due to the current market environment although money market fund rates have risen over the quarter to an average of 0.50% (0.47% previous quarter).

- 1.6 When placing temporary deposits the Council uses a credit rating weekly list 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.
- 1.7 Details of the Council's investment policy, the credit rating of these counterparties, and deposits held as at 31 December 2015 are at **Appendix 1**.
- 1.8 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 or 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

Designation: Director of Finance
Date: 19 January 2016
Author: David Robertson, Head of Corporate Finance
Background Papers: Loan Documentation, Financial Ledger

Treasury Management - Summary of Transactions for the Month to 31 October 2015

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	631,808,650	0	0	631,808,650	4.89	4.89
Mortgage Bonds	117,056,000	0	0	117,056,000	4.82	4.82
Temporary Loans	45,000,000	4,000,000	(10,000,000)	39,000,000	0.43	0.43
Bank Balance	(181,538)	68,362	0	(113,176)		
GROSS EXTERNAL BORROWING	793,683,112	4,068,362	(10,000,000)	787,751,474		
<i>Temporary Deposits</i>	<i>(85,592,500)</i>	<i>(38,698,700)</i>	46,233,500	<i>(78,057,700)</i>	0.67	0.69
NET EXTERNAL BORROWING	708,090,612	(34,630,338)	36,233,500	709,693,774		
Total average					4.63	4.66

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	(5.23)	25.00
Borrowing at variable rates of interest as % of the Council's total outstanding loan debt	6.3	35.00

Treasury Management - Summary of Transactions for the Month to 30 November 2015

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	631,808,650	0	0	631,808,650	4.89	4.89
Mortgage Bonds	117,056,000	0	0	117,056,000	4.82	4.82
Temporary Loans	39,000,000	19,000,000	(11,000,000)	47,000,000	0.43	0.46
Bank Balance	(113,176)	35,326	0	(77,850)		
GROSS EXTERNAL BORROWING	787,751,474	19,035,326	(11,000,000)	795,786,800		
<i>Temporary Deposits</i>	<i>(78,057,700)</i>	<i>(75,138,300)</i>	84,110,000	<i>(69,086,000)</i>	0.69	0.67
NET EXTERNAL BORROWING	709,693,774	(56,102,974)	73,110,000	726,700,800		
Total average					4.66	4.62

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	(2.96)	25.00
Borrowing at variable rates of interest as % of the Council's total outstanding loan debt	7.4	35.00

Treasury Management - Summary of Transactions for the Month to 31 December 2015

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	631,808,650	1,350,000	0	633,158,650	4.89	4.89
Mortgage Bonds	117,056,000	0	0	117,056,000	4.82	4.82
Temporary Loans	47,000,000	8,000,000	(2,000,000)	53,000,000	0.46	0.47
Bank Balance	(77,850)	0	(32,906)	(110,757)		
GROSS EXTERNAL BORROWING	795,786,800	9,350,000	(2,032,906)	803,103,893		
<i>Temporary Deposits</i>	<i>(69,086,000)</i>	<i>(59,651,100)</i>	48,028,700	<i>(80,708,400)</i>	0.67	0.66
NET EXTERNAL BORROWING	726,700,800	(50,301,100)	45,995,794	722,395,493		
					4.62	4.58

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	(3.72)	25.00
Borrowing at variable rates of interest as % of the Council's total outstanding loan debt	4.7	35.00

**The Highland Council - 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 October 2015	£924.3m	£907.1m	£787.9m	£783.9m	£793.9m
30 November 2015	£924.3m	£907.1m	£795.9m	£784.4m	£795.9m
31 December 2015	£924.3m	£907.1m	£803.2m	£802.9m	£805.2m

* **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 01/04/15 are set out in the Treasury Management Strategy Statement 2015/16 (approved by Council 12/03/15).

** **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 October 2015	£865.1m	£302.8m	£664.7m	£45.0m
30 November 2015	£865.1m	£302.8m	£672.7m	£54.0m
31 December 2015	£865.1m	£302.8m	£688.1m	£34.3m

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%
31 October 2015	8.8%	2.9%	12.5%	10.4%	65.4%
30 November 2015	9.8%	2.9%	12.3%	10.2%	64.8%
31 December 2015	10.6%	2.8%	12.2%	10.3%	64.1%

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, Moody's and Standard and Poor's. 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 (when the rating does not match any of the durational bands advised by Capita) is £10m.

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 (when the rating does not match any of the durational bands advised by Capita) is £10m.

List of Counterparties, counterparty limit and credit rating

The following table is a list of current counterparties used, the Capita credit rating as at 31 December 2015 and amounts deposited.

Counterparty	Total amount £	Counterparty limit £	Capita credit rating (Sept-15)	Amount £	Deposit Type*	Rate % (Sep-15)	Duration Days
Bank of Scotland	10,100,000	15,000,000	Red - 6 months	100,000	Call	0.40	N/A
				10,000,000	175 DN	0.75	N/A
Clydesdale Bank**	15,508,400	10,000,000	No colour - zero	15,508,400	Call	0.50	N/A
				0	CMA	0.10	Overnight
Royal Bank of Scotland	10,000,000	25,000,000	Blue -12 months	5,000,000	FTD	0.88	365
				5,000,000	CD	0.97	361
Santander	10,000,000	15,000,000	Red - 6 months	5,000,000	95 DN	0.90	N/A
				5,000,000	120 DN	1.05	
Standard Chartered Bank	5,000,000	15,000,000	Red - 6 months	5,000,000	CD	0.73	182
Standard Life Investments	15,000,000	15,000,000	Triple A rated	15,000,000	Call	0.50	N/A
Insight Investments	15,000,000	15,000,000	Triple A rated	15,000,000	Call	0.50	N/A
Svenska Handelsbanken	100,000	15,000,000	Orange -12 months	100,000	Call	0.45	N/A
TOTAL DEPOSITS	80,708,400			80,708,400			

* Deposit Type – Fixed Term Deposit (FTD), Cash Management Account (CMA)

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.

**The limit on the Clydesdale was breached by £5,508,400 on 31 December 15 due to the receipt of a VAT reclaim of £5,151,112 (the exact date of which could not be predicted). This breach was communicated to management and funds were transferred from the Clydesdale to an alternative counterparty on 05 January 2016 when the Scottish Banking system re-opened after the festive period.