

Agenda Item	14.
Report No	RES/25/17

HIGHLAND COUNCIL

Committee: Corporate Resources Committee

Date: 14 June 2017

Report Title: Treasury Management – Summary of Transactions
January, February and March 2017

Report By: Director of Finance

1. Purpose/Executive Summary

- 1.1 This report on the treasury management transactions undertaken within the period is submitted to Committee for members' scrutiny and in compliance with CIPFA's Code of Practice on Treasury Management.
- 1.2 This report sets out treasury management transactions during the period (see **Appendix 1**), reflecting activity undertaken to manage the Council's cash flows, and borrowing to fund capital expenditure. It also demonstrates compliance with the Council's prudential indicators (see **Appendix 2**).
- 1.3 The borrowing strategy for 2016/17 has been to make the best use of the low rates currently available on temporary short term borrowing (duration of less than 1 year) to minimise the cost of loans charges but to monitor long term borrowing rates and to act to minimise exposure to the risk of interest rate increases.

2. Recommendations

- 2.1 Members are asked to:
 - i. Consider the Treasury Management Summary of Transactions report.

3. Borrowing undertaken and repaid

- 3.1 There was temporary borrowing of £69.5m undertaken in the period January to March 2017 and £54.5m of temporary loans were repaid during this period. The average rate for temporary loans as at 31 March 2017 was 0.39%.
- 3.2 The impact on balances of the above borrowing is shown in **Appendix 1**.

4. Deposits

- 4.1 The rates on call accounts and money market funds for short term deposits continue to be low due to the current market environment and the Bank Rate is currently 0.25%.
- 4.2 During the quarter ended 31 March 17 the following deposits were placed to cover future cash flow pressures and a full list of all counterparties as at 31 March 2017 is at **Appendix 3**.

Date	Amount	Counterparty	Duration	Rate
20/02/17	£10m	Goldman Sachs	6 months	0.76%
15/03/17	£10m	Santander 180 day notice		0.90%

- 4.3 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.
- 4.4 Details of the Council's investment policy, the credit rating of these counterparties, and deposits held as at 31 March 2017 are at **Appendix 4**.
- 4.5 The Council's Treasury Management Policy is regularly reviewed.

5. Implications

- 5.1 Resource – borrowing undertaken at favourable interest rates, as detailed above has contributed to in an under-spend in the loans charge budget of £0.503m.
- 5.2 There are no Legal, Communities, Climate change/carbon clever, Risk or Gaelic implications arising as a direct result of this report.

Designation: Director of Finance

Date: 02 June 2017

Author: Edward Foster, Head of Corporate Finance

Background Papers: Treasury System & Financial Ledger

Appendix 1

Treasury Management - Summary of Transactions for the Quarter to 31 March 2017

Type of Borrowing	Outstanding debt at start of quarter £	Raised £	Repaid £	Outstanding debt at end of quarter £	Average Interest Rate	
					beg %	end%
Public Works Loan Board	638,658,650	0	(20,000,000)	618,658,650	4.84	4.87
Fixed Market Loans	33,000,000	0	0	33,000,000	1.02	1.02
LOBO Market Loans	116,306,000	0	0	116,306,000	4.79	4.79
Temporary Loans	100,000,000	69,500,000	(54,500,000)	115,000,000	0.32	0.39
Bank Balance	(54,661)	0	(112,290)	(166,951)		
GROSS EXTERNAL BORROWING	887,909,989	69,500,000	(74,612,290)	882,797,699		
<i>Temporary Deposits</i>	<i>(97,590,000)</i>	<i>(168,693,600)</i>	202,763,400	<i>(63,520,200)</i>	0.51	0.49
NET EXTERNAL BORROWING	790,319,989	(99,193,600)	128,151,110	819,277,499		
Total average					4.18	4.13

Borrowing / Lending internal parameters as per approved Treasury Management Practices

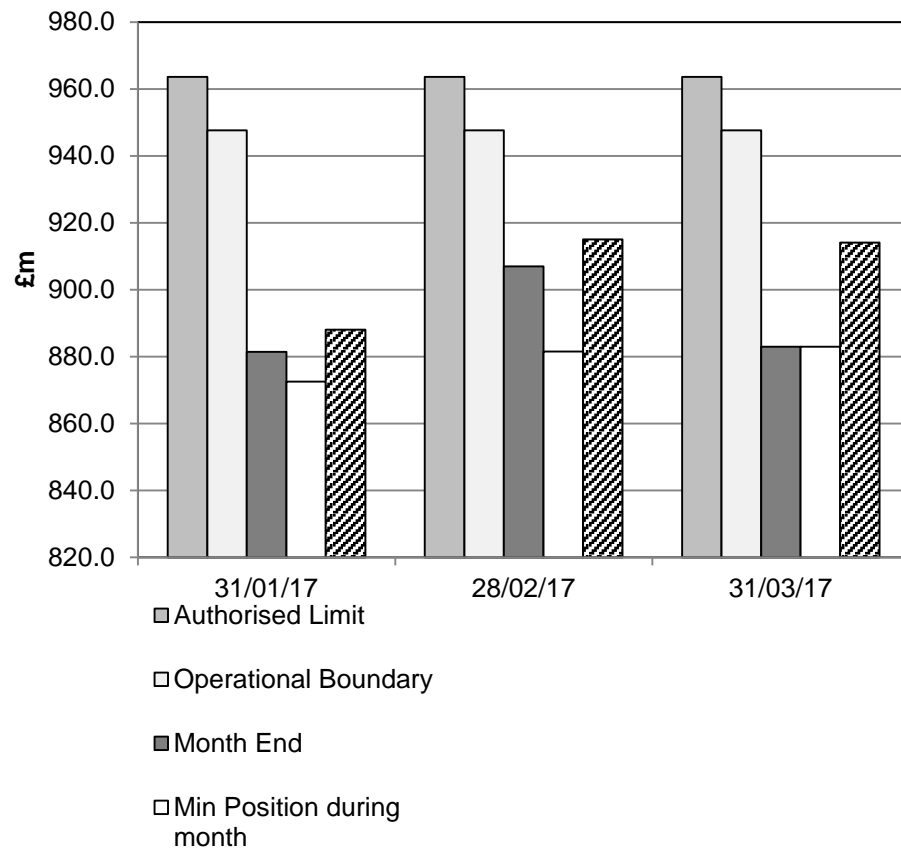
	Actual %	Approved Max%
Short term borrowing as % of the Council's outstanding long term debt	15.0	25.00
Borrowing at variable rates of interest as % of the Council's total outstanding loan debt	10.1	35.00

Appendix 2

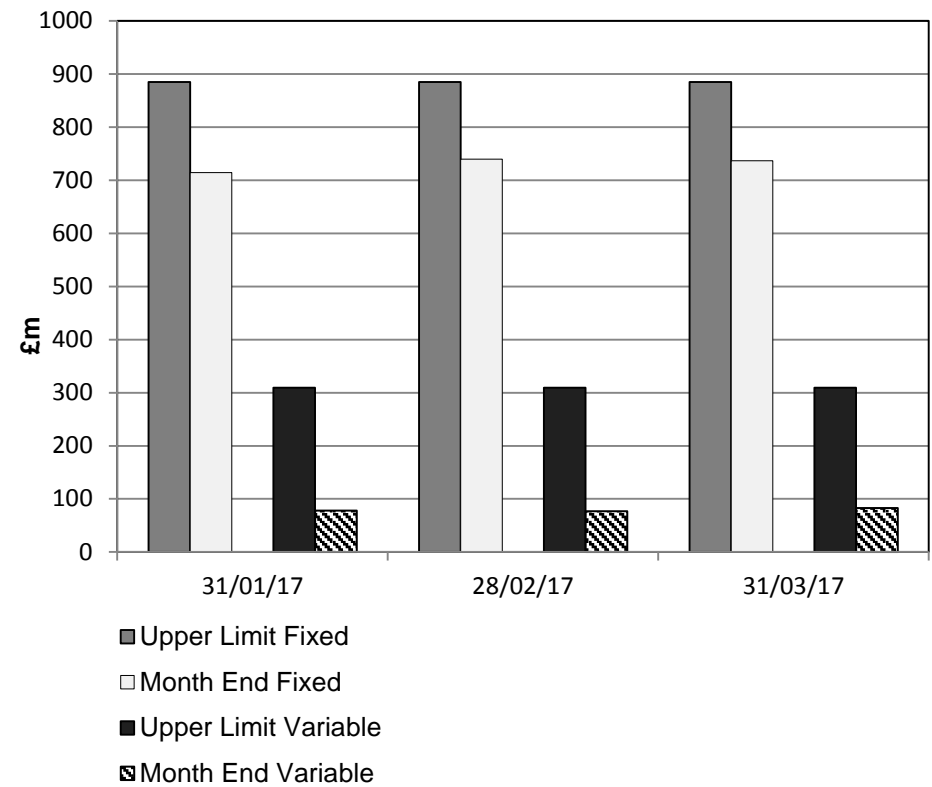
Treasury Management - Prudential Indicators

The Council has complied with all the prudential limits set in the Treasury Management Strategy Statement 2016/17.

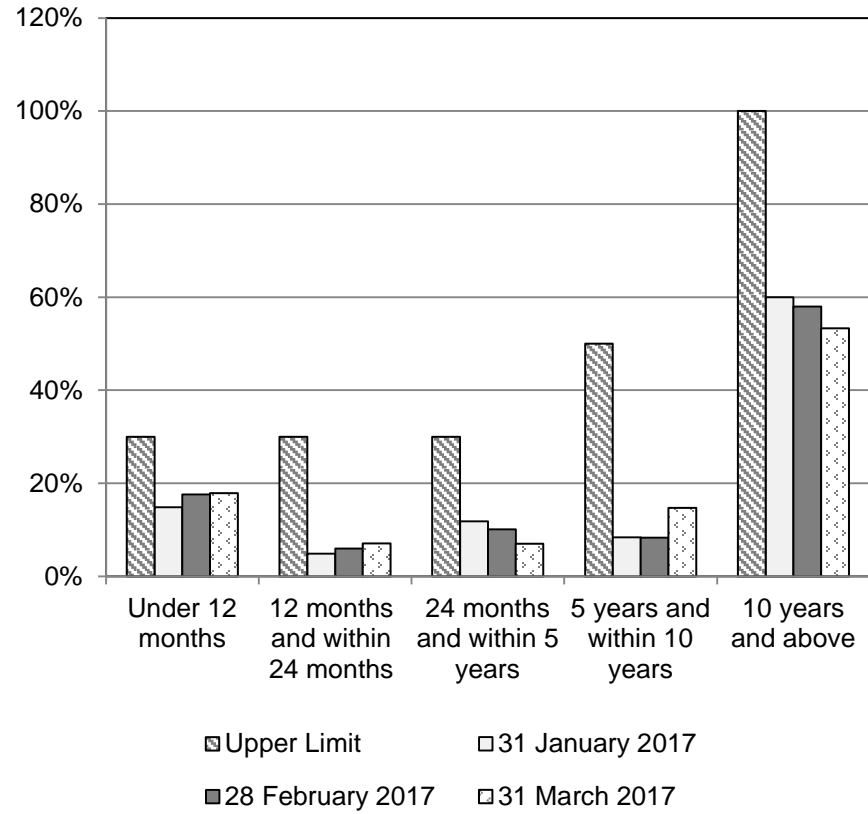
External Debt



Debt Net of Investments



Maturity Structure of fixed rate borrowing



Appendix 3

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 March 2017 and amounts deposited with each counterparty. **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.*

Counterparty	Total amount £	Counterparty limit £	Capita credit rating (Mar-17)	Amount £	Deposit Type*	Rate % (Mar-17)	Duration Days
Clydesdale Bank*	5,620,200	10,000,000	No colour - zero	5,600,000	Call	0.25	N/A
				20,200	CMA	0.10	Overnight
Goldman Sachs International	15,000,000	20,000,000	Red – 6 months	5,000,000	FTD	0.62	177
				10,000,000	FTD	0.76	179
Rhondda Cynon Taff CBC	5,000,000	20,000,000	Yellow – 60 Months	5,000,000	FTD	0.50	7
Insight Investments	7,800,000	20,000,000	Triple A rated	7,800,000	Call	0.24	N/A
Santander	10,000,000	20,000,000	Red - 6 months	5,000,000	180 DN	0.90	N/A
				5,000,000	180 DN	0.90	N/A
Standard Life Investments	20,000,000	20,000,000	Triple A rated	20,000,000	Call	0.28	N/A
Svenska Handelsbanken	100,000	20,000,000	Orange – 12 Months	100,000	Call	0.20	N/A
TOTAL DEPOSITS	63,520,200			63,520,200			

Appendix 4

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 daily basis. Extreme market movements may result in downgrade of an institution or removal from the Council's 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
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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 £20m 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 use other counterparties, with a £10m limit applying to each.