

Agenda Item	13 (a)
Report No	RES/61/17

HIGHLAND COUNCIL

Committee: Corporate Resources Committee

Date: 15 November 2017

Report Title: Treasury Management – Summary of Transactions
Quarter ended September 2017

Report By: Director of Corporate Resources

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 In managing its borrowing requirement, the Council has historically taken medium to long term borrowing at the most opportune time, to take advantage of the lowest interest rates available.
- 1.4 The strategy for 2017/18 is to make the best use of the low rates currently available on temporary short term borrowing (duration of less than 1 year) to minimise loans charges. The Council will consider a strategy of de-risking by taking slightly longer term borrowing (up to 5 years) with the aim of mitigating the risk of increased borrowing costs as interest rates start to rise. However, the strategy should also remain flexible and new borrowing may be undertaken depending on prevailing market conditions.

2. Recommendations

- 2.1 Members are invited to consider the Treasury Management Summary of Transactions report.

3. Borrowing undertaken and repayments made

3.1 There was temporary borrowing of £68.5m undertaken in the period July to September 2017 and £62m of temporary loans were repaid. Total temporary loans amounted to £128.5m and average rate at 30 September 2017 was 0.36% (£84m at 30 Sep 2016, average rate 0.37%).

There were no long term loan maturities.

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. The Bank Rate was increased to 0.50% on 2 November 2017 which is likely to increase short term deposit rates going forward.

4.2 During the quarter ended 30 September 2017 as well as using call account/Money Market Fund facilities the following deposits were placed to cover future cash flow pressures. A full list of all counterparties as at 30 September 2017 is at **Appendix 3**.

Date	Amount	Counterparty	Duration	Rate
01/09/2017	£5m	Svenska Handelsbanken 35 day notice	35 Days	0.30%

4.3 When placing temporary deposits the Council uses a weekly credit rating 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 The Council's Treasury Management Policy is regularly reviewed.

5. Implications

5.1 Resource – the policy of using short term borrowing is at a lower cost than longer term borrowing and achieves savings but there are associated risks:

- rates may increase and/or appropriate borrowing may not be available when required
- regularly refinancing short term borrowing places an additional burden on staff. Whilst the additional work has so far been managed within existing staffing resources, additional staff may be required to facilitate any further substantial increase in the level of short term borrowing.

5.2 There are no Legal, Community (Equality, Poverty and Rural), Climate Change/Carbon Clever, Risk or Gaelic implications arising as a direct result of this report.

Designation: Director of Corporate Resources

Date: 6 November 2017

Author: Edward Foster, Head of Corporate Finance &
Commercialism

Background Papers: Treasury System & Financial Ledger

Appendix 1

Treasury Management - Summary of Transactions for the Quarter to 30 September 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	618,658,650	0	0	618,658,650	4.87	4.87
Market Loans (term less than 5 years)	33,000,000	0	0	33,000,000	1.11	1.11
LOBO Market Loans	116,306,000	0	0	116,306,000	4.79	4.79
Temporary Loans (term less than year)	122,000,000	68,500,000	(62,000,000)	128,500,000	0.40	0.36
Bank Balance	(107,459)	0	(74,118)	(181,577)		
GROSS EXTERNAL BORROWING	889,857,191	68,500,000	(62,074,118)	896,283,073		
<i>Temporary Deposits</i>	(81,166,900)	(154,071,800)	145,138,700	(90,100,000)	0.56	0.46
NET EXTERNAL BORROWING	808,690,291	(85,571,800)	83,064,582	806,183,073		
Total average					4.11	4.08

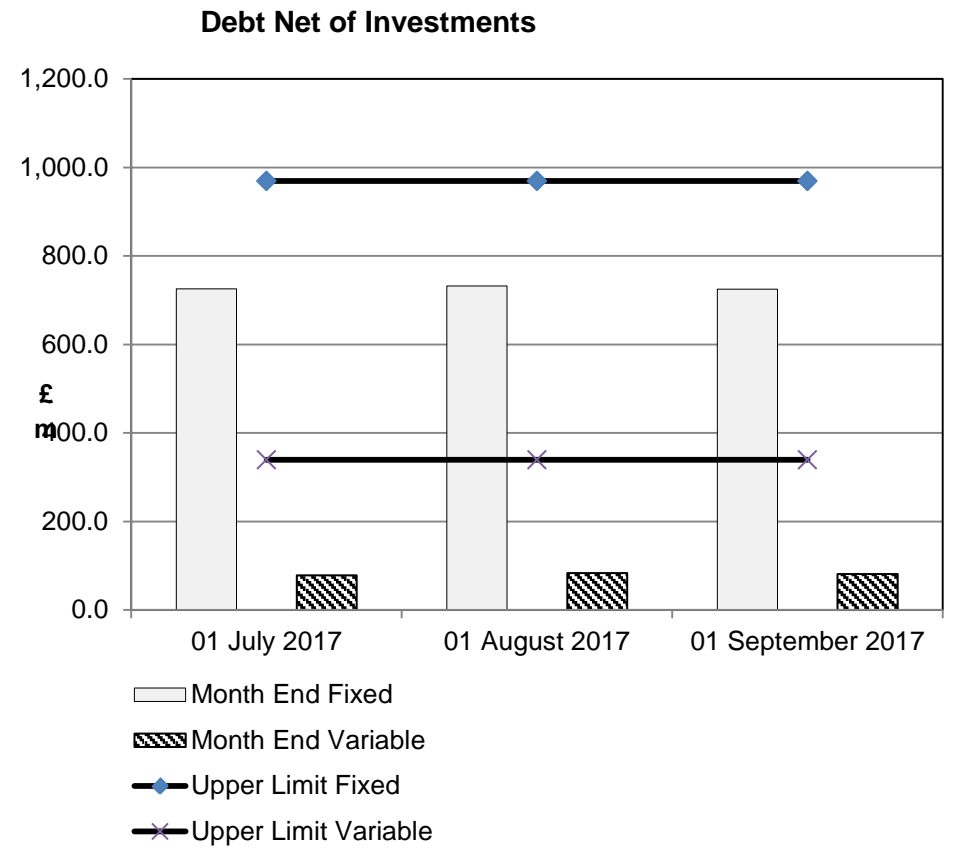
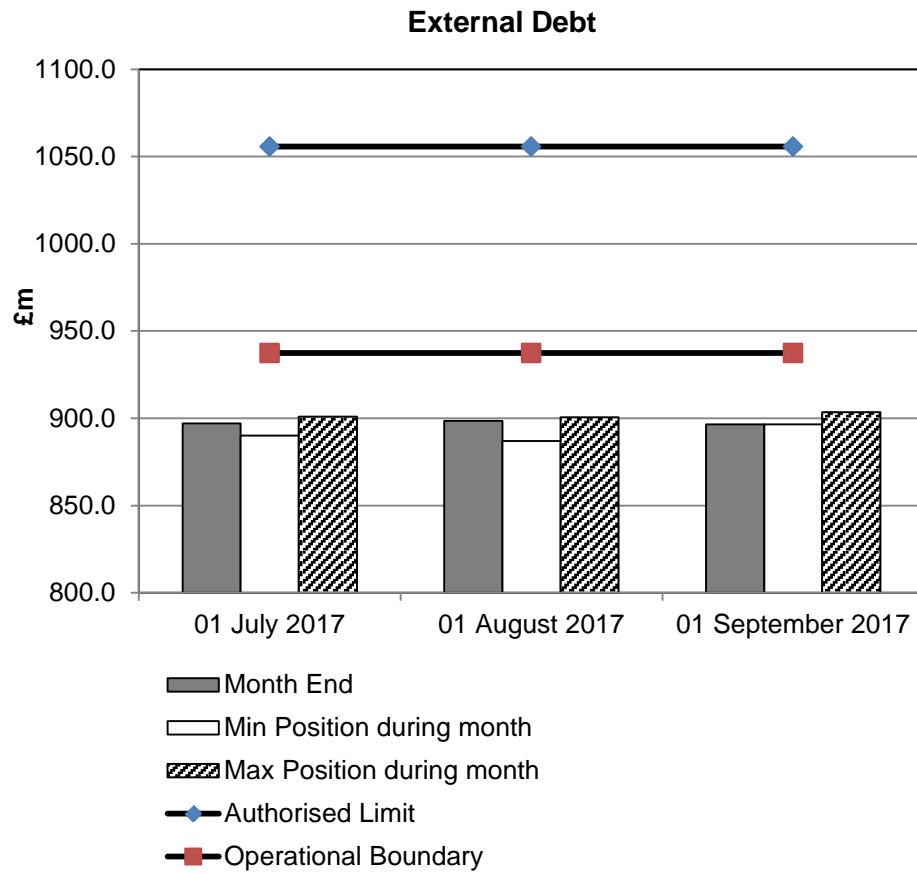
Borrowing / Lending internal parameters as per approved Treasury Management Practices

	Actual %	Approved Max%
Short term borrowing as % of the Council's total outstanding debt	14.30	25.00
Borrowing at variable rates of interest as % of the Council's total outstanding loan debt	10.10	35.00

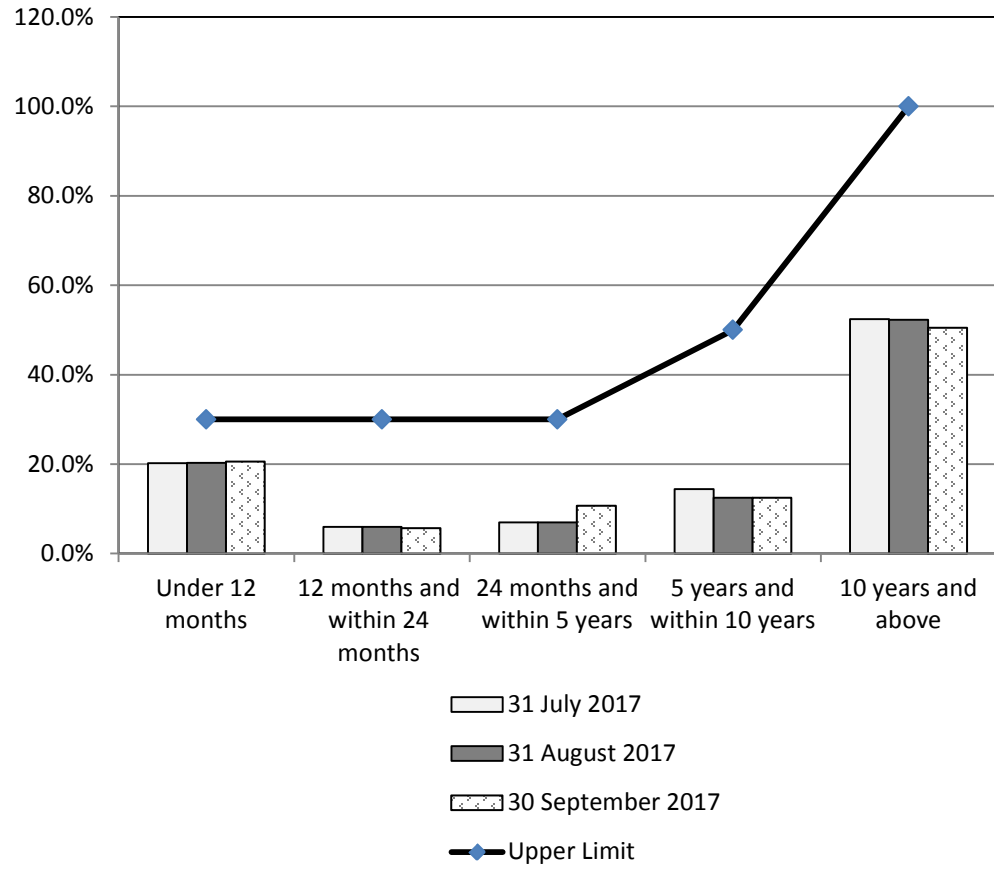
Appendix 2

Treasury Management - Prudential Indicators

The Council has complied with all the prudential limits set in the Treasury Management Strategy Statement 2017/18.



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 30 September 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 (Sep-17)	Amount £	Deposit Type*	Rate % (Sep-17)	Duration Days
Clydesdale Bank	7,800,000	10,000,000	No colour - zero	7,800,000	Call	0.25	N/A
				0	CMA	0.10	Overnight
Goldman Sachs International	20,000,000	20,000,000	Red – 6 months	10,000,000	FTD	0.55	182
				5,000,000	FTD	0.71	183
				5,000,000	FTD	0.64	182
Bank of Scotland	10,000,000	20,000,000	Red – 6 months	10,000,000	FTD	0.55	182
Insight Investments	7,200,000	20,000,000	Triple A rated	7,200,000	Call	0.17	N/A
Santander	20,000,000	20,000,000	Red - 6 months	15,000,000	180 DN	0.90	N/A
				5,000,000		0.55*	N/A
Standard Life Investments	20,000,000	20,000,000	Triple A rated	20,000,000	Call	0.20	N/A
Svenska Handelsbanken	5,100,000	20,000,000	Orange – 12 Months	100,000	Call	0.20	N/A
				5,000,000	35 DN	0.30	N/A
TOTAL DEPOSITS	90,100,000			90,100,000			

* The interest rate paid on the Santander 180 day notice account reduced to 0.55% from 0.90% on 01 August 2017 bringing it more in line with the rates offered by other similar counterparties.