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| Agenda item | 13. |
| Report no | RES/28/18 |

HIGHLAND COUNCIL

Committee: Corporate Resources Committee

Date: 24 May 2018

Report Title: Treasury Management – Summary of Transactions
Quarter ended March 2018

Report By: Depute Chief Executive / 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 was 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.

2. Recommendations

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

3. Borrowing undertaken and repayments made

- 3.1 There was temporary borrowing of £104.5m undertaken in the period January to March 2018 and £102m of temporary loans were repaid. At 31 March 2018, the total temporary loans balance was £151m with an average rate of 0.52% (£148.5m at 31 December 2017, average rate 0.40%). Appendix 1 includes Public Work Loans Board loans totalling £22.5m which matured on 31 March 18 but due to the Easter Bank Holiday the actual cash transaction took place on 3 April 2018.
- 3.2 Rates have generally increased since the Bank Rate rise in November on both the borrowing and the investment side. 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. Bank Rate was 0.50% at 31 March 2018.
- 4.2 During the quarter ended 31 March 2018 as well as using call account/Money Market Fund facilities, fixed term deposits were placed to cover future cash flow pressures. A full list of all counterparties as at 31 March 2018 is at **Appendix 3**.
- 4.3 When placing temporary deposits the Council uses a weekly credit rating list provided by Link Treasury Services Ltd (formerly Capita) 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 Strategy Statement and Investment Statement for 2018/19 was approved by The Highland Council on 8 March 2018.
- 4.5 The Treasury Management Policy is regularly reviewed

5. Implications

- 5.1 Resource and Risk – 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.
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- 5.2 There are no Legal, Communities, Climate change/carbon clever or Gaelic implications arising as a direct result of this report.

Designation: Depute Chief Executive / Director of Corporate Resources
Date: 23 April 2018
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 2018

| 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) | 148,500,000 | 104,500,000 | (102,000,000) | 151,000,000 | 0.40 | 0.52 |
| Bank Balance | (106,465) | 0 | (102,734) | (209,199) | | |
| GROSS EXTERNAL BORROWING | 916,358,185 | 104,500,000 | (102,102,734) | 918,755,451 | | |
| <i>Temporary Deposits</i> | <i>(79,800,000)</i> | <i>(142,056,500)</i> | 151,331,800 | <i>(70,524,700)</i> | 0.53 | 0.53 |
| NET EXTERNAL BORROWING | 836,558,185 | (37,556,500) | 49,229,066 | 848,230,751 | | |
| Total average | | | | | 4.01 | 4.00 |

Borrowing / Lending internal parameters as per approved Treasury Management Practices

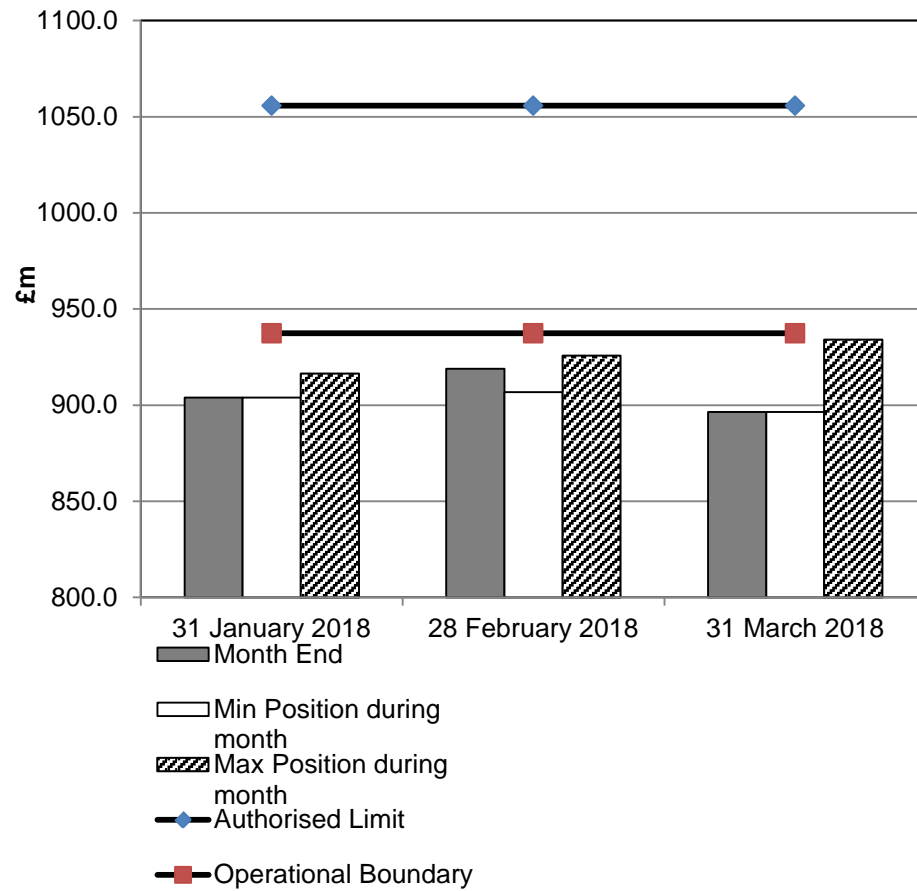
| | Actual % | Approved Max% |
|---|-----------------|----------------------|
| Short term borrowing as % of the Council's total outstanding debt | 16.4 | 25.00 |
| Borrowing at variable rates of interest as % of the Council's total outstanding loan debt | 12.7 | 35.00 |

Appendix 2

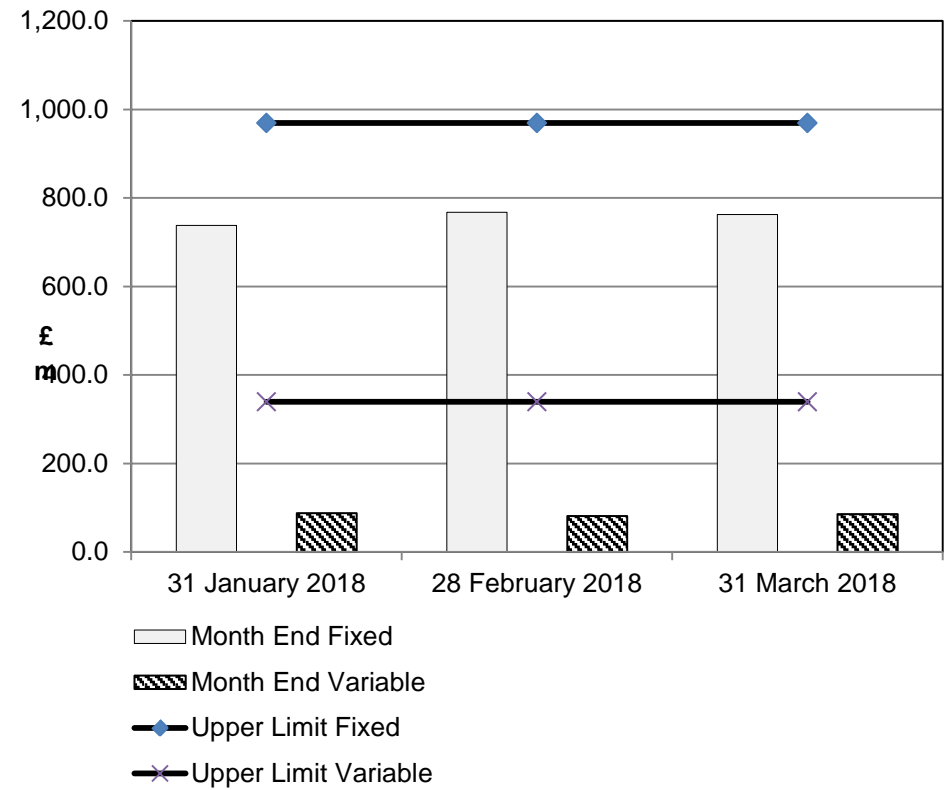
Treasury Management - Prudential Indicators

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

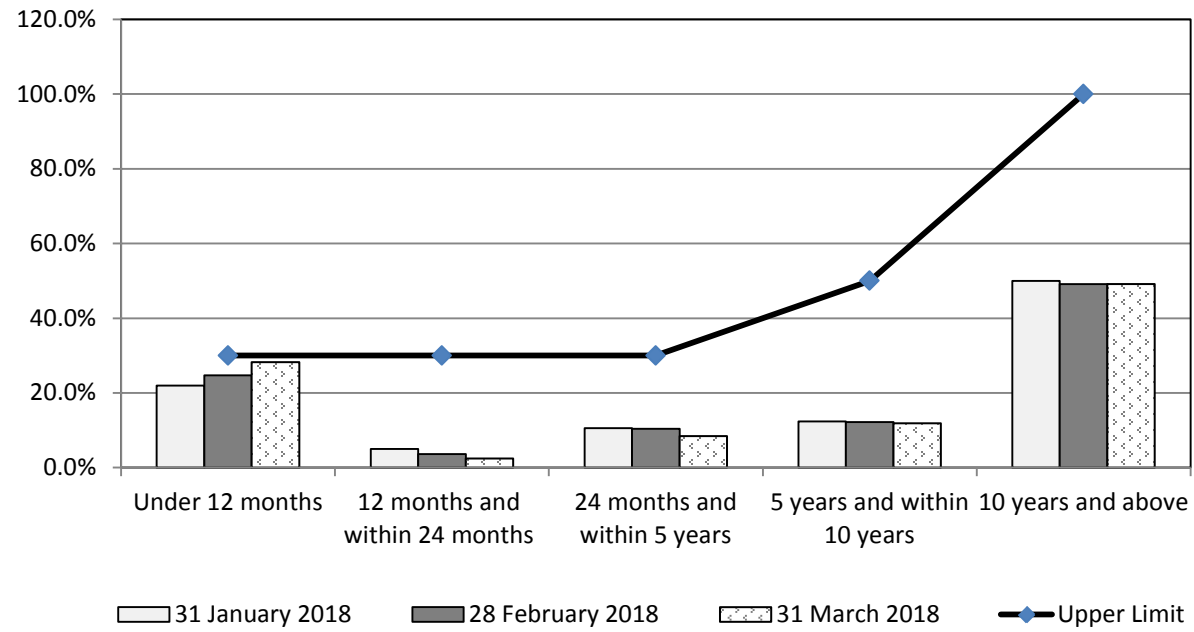
External Debt



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 2018 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-18) | Amount £ | Deposit Type* | Rate % (Mar-18) | Duration Days |
|-----------------------------|-------------------|-------------------------|----------------------------------|-------------------|---------------|--------------------|------------------|
| Clydesdale Bank | 4,324,700 | 10,000,000 | No colour - zero | 4,300,000 | Call | 0.50 | N/A |
| | | | | 24,700 | CMA | 0.10 | Overnight |
| Goldman Sachs International | 10,000,000 | 20,000,000 | Red – 6 months | | | | |
| | | | | 5,000,000 | FTD | 0.68 | 181 |
| | | | | 5,000,000 | FTD | 0.67 | 180 |
| Bank of Scotland | 5,000,000 | 20,000,000 | O – 12 months | 5,000,000 | FTD | 0.65 | 179 |
| East Dunbartonshire Council | 5,000,000 | 20,000,000 | P – 24 months | 5,000,000 | FTD | 0.45 | 162 |
| Lancashire County Council | 5,000,000 | 20,000,000 | P – 24 months | 5,000,000 | FTD | 0.44 | 153 |
| Derbyshire County Council | 5,000,000 | 20,000,000 | P – 24 months | 5,000,000 | FTD | 0.65 | 25 |
| Insight Investments | 1,100,000 | 20,000,000 | Triple A rated | 1,100,000 | Call | 0.44 | N/A |
| Santander | 15,000,000 | 20,000,000 | Red - 6 months | 10,000,000 | 180 DN | 0.70 | N/A |
| | | | | 5,000,000 | 35 DN | 0.50 | N/A |
| Aberdeen Standard | 20,000,000 | 20,000,000 | Triple A rated | 20,000,000 | Call | 0.46 | N/A |
| Svenska Handelsbanken | 100,000 | 20,000,000 | Orange – 12 Months | 100,000 | Call | 0.35 | N/A |
| TOTAL DEPOSITS | 70,524,700 | | | 70,524,700 | | | |