

Agenda Item	10.a
Report No	RES/41/18

HIGHLAND COUNCIL

Committee: Corporate Resources Committee

Date: 29 August 2018

Report Title: Treasury Management – Summary of Transactions
Quarter ended June 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**).

2. Recommendations

- 2.1 Members are asked to:
- Consider the Treasury Management Summary of Transactions report.
 - Approve in principle a loan to Albyn Housing society with a business case and detailed loan terms to be brought back to a future meeting of this committee for approval.

3. Treasury Management Strategy 2018/19

- 3.1 The strategy for 2018/19 is primarily to take new short term borrowing (duration of less than 1 year) to fund the capital programme but consider using long term borrowing to replace maturities, in order to manage refinancing risk. Due to the risk involved, both in terms of refinancing and operational capacity, a limit of £200m was set for the maximum amount of short term borrowing outstanding at any point.
- 3.2 Based on capital plan forecasts, it was estimated that to maintain a limit of £200m on short term borrowing, £50m would require to be funded by long term borrowing in 2018/19. However, the Council will ensure its strategy remains flexible.

4. Borrowing undertaken and repayments made

- 4.1 There was temporary borrowing of £46.0m undertaken in the period April to June 2018 and £75.0m of temporary loans were repaid. At 30 June 2018, the total temporary loans balance was £122.0m with an average rate of 0.65% (£151.0m at 31 March 2018, average rate 0.52%).
- 4.2 Public Work Loans Board (PWLB) loans of £22.5m were repaid on 3 April 2018 (maturity date was 31 March 2018 but the repayment date was later due to the Easter Bank Holiday).

Counterparty	Amount £m	Rate %	Start Date	Maturity Date
Public Works Loan Board	15.0	3.57	30/06/2009	31/03/2018
Public Works Loan Board	7.5	3.62	02/11/2009	31/03/2018
Total	22.5			

- 4.3 The following PWLB and Market borrowing was undertaken in line with the 2018/19 Treasury Management Strategy Statement.

Counterparty	Amount £m	Rate %	Start Date	Maturity Date
Public Works Loan Board	25.0	2.27	05/04/2018	30/09/2067
Public Works Loan Board	10.0	2.25	03/05/2018	31/03/2067
Total PWLB	35.0			

Counterparty	Amount £m	Rate %	Start Date	Maturity Date
London Borough of Wandsworth	2.5	1.30	12/04/2018	14/04/2020
Portsmouth City Council	2.5	1.30	12/04/2018	14/04/2020
Portsmouth City Council	2.5	1.30	03/04/2018	03/04/2020
Total borrowing <5 years	7.5			

- 4.4 Borrowing rates have generally increased since the Bank Rate rise in November 2017 and subsequent increase in bank rate from 0.50% to 0.75% on 2 August 2018.

5. Deposits

- 5.1 The rates on call accounts and money market funds for short term deposits continue to be low due to the current market environment but a marginal increase has been seen since the bank rate rise on 2 August 2018.
- 5.2 During the quarter ended 30 June 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 30 June 2018 is at **Appendix 3**.
- 5.3 When placing temporary deposits the Council uses a weekly credit rating list provided by Link 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.
- 5.4 The Council's Treasury Management Strategy Statement and Investment Statement for 2018/19 was approved by The Highland Council on 8 March 2018 and any amendment to this would be approved by Committee.

6. Loan to Albyn Housing Society

- 6.1 The Scottish Government have issued guidance (finance circular 5/2014) enabling local authorities to on lend to RSLs to assist in the delivery of new affordable homes. Any proposal to on lend must be formally approved the relevant committee.
- 6.2 Albyn Housing Society have approached the Council with a request to borrow short term development finance from the Highland Council until they obtain new bond finance. Obtaining bridging finance from the Highland Council will enable them to delay the bond issue and reduce their funding costs enabling them to plan and implement an enhanced development programme which would otherwise be stalled.
- 6.3 The Highland Council programme includes the delivery of 500 new affordable homes per annum over a five year period. Albyn Housing Society is the largest provider of new affordable housing in the Highlands. If Albyn's development programme is delayed or stalled due securing development finance there are no other affordable housing providers of sufficient size and expertise to deliver the housing and the Highland Council's affordable housing target will not be met.
- 6.4 Albyn Housing Society are seeking development finance of £12.5 million from October 2019 until December 2020 (15 months). The exact terms of the loan are still under discussion but proposals are that it will be linked to the prevailing PWLB rate at the time any loan transaction takes place. A premium will be added to the PWLB rate to reflect the risk to the Council and costs incurred.
- 6.5 The loan would be on a first ranking security over the site values and value of work under construction. In the unlikely event that the loan was not repaid there will always be sufficient equity on the sites which would transfer over to Highland Council ownership. It should be noted that no RSL has ever defaulted on a development finance loan in Scotland.

6.6 Members are asked to agree in principle to the Council making this loan to Albyn and instruct officers to bring back a business case with full loan terms to a subsequent meeting of this committee.

7. Implications

7.1 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.

7.2 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: 17 August 2018

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 June 2018

Type of Borrowing	Outstanding debt at start of quarter £m	Raised £m	Repaid £m	Outstanding debt at end of quarter £m	Average Interest Rate	
					beg %	end %
Public Works Loan Board	618.6m	35.0	(22.5)	631.1	4.87	4.77
Market Loans (term less than 5 years)	33.0	7.5	(6.0)	34.5	1.11	1.26
LOBO Market Loans	116.3	0	0	116.3	4.79	4.79
Temporary Loans (term less than year)	151.0	46.0	(75.0)	122.0	0.52	0.65
Bank Balance	(0.2)	0.1	0	(0.1)		
GROSS EXTERNAL BORROWING	918.7	88.6	(103.5)	903.8		
<i>Temporary Deposits</i>	<i>(70.5)</i>	<i>(161.2)</i>	176.2	<i>(55.5)</i>	0.53	0.60
NET EXTERNAL BORROWING	848.2	(72.6)	72.7	848.3		
Total average					4.00	4.00

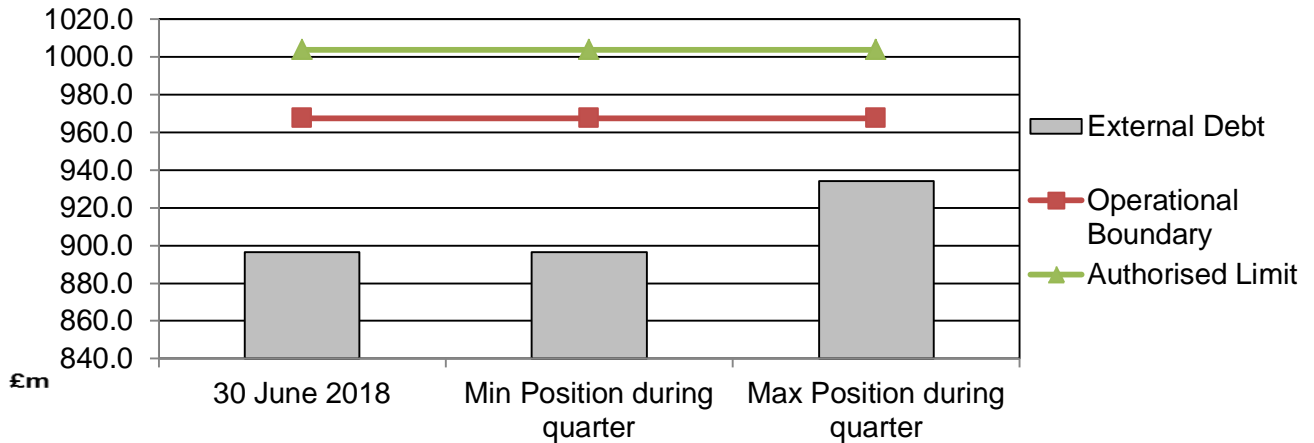
<u>Borrowing / Lending internal parameters as per approved Treasury Management Practices</u>	<u>Actual</u> %	<u>Approved Max</u> %
Short term borrowing as % of the Council's total outstanding debt	16.8%	30.0%
Borrowing at variable rates of interest as % of the Council's total outstanding loan debt	13.0%	35.0%

Appendix 2

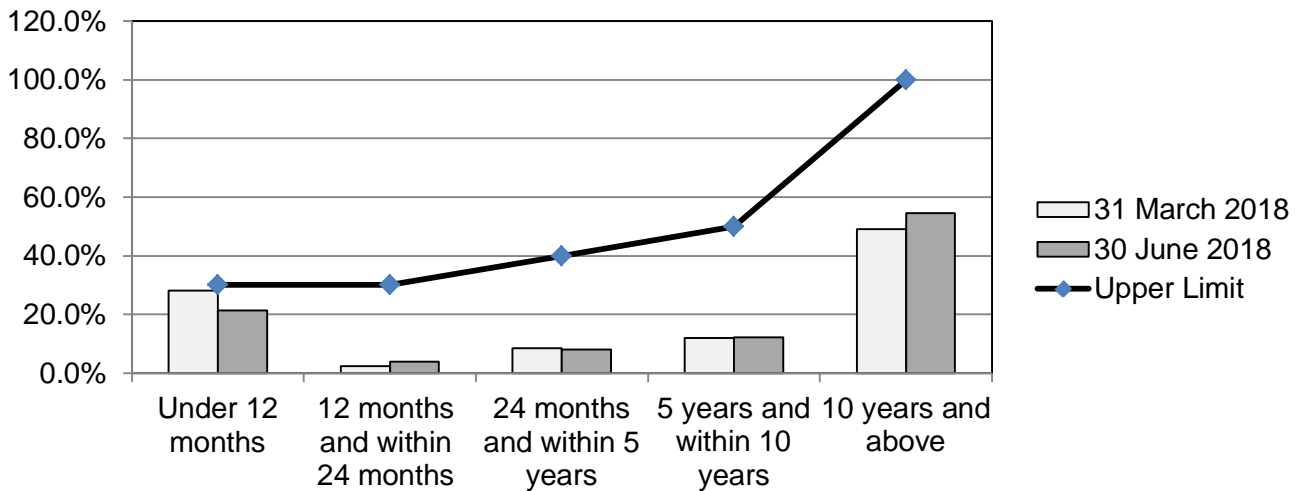
Treasury Management - Prudential Indicators

The Council has complied with all the prudential limits set in the Treasury Management Strategy Statement 2018/19.

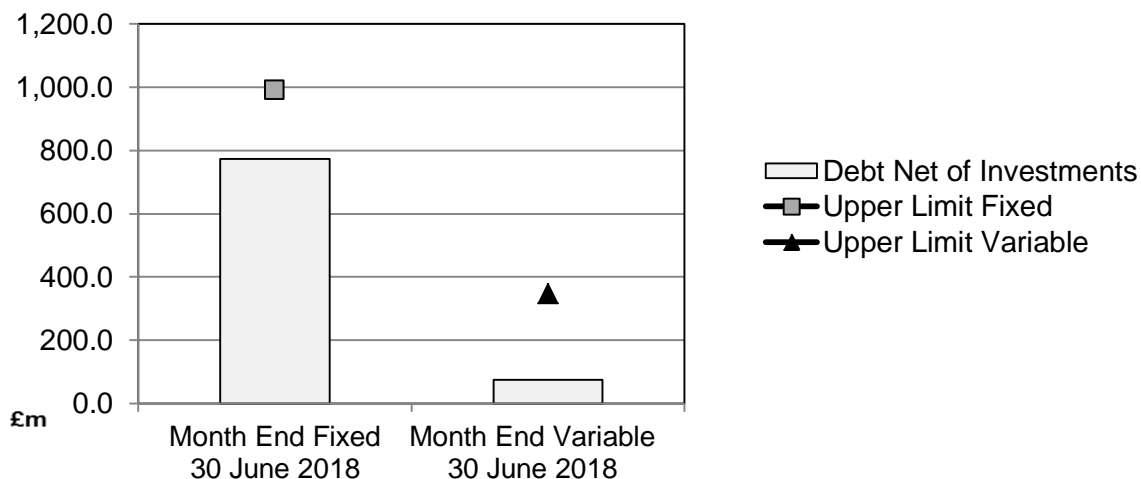
External Debt



Maturity Structure of Fixed Rate Borrowing



Debt Net of Investments



Appendix 3

List of Counterparties

The following table is a list of current counterparties used, amount deposited with each counterparty and the Link credit rating as at 30 June 2018.

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 £m	Counter party limit £m	Link credit rating Jun-18	Amount £m	Deposit Type	Rate Jun-18 %	Duration Days
Clydesdale Bank	5.0	10.0	No colour - zero	5.0	Call	0.50	N/A
Goldman Sachs International	10.0	20.0	Red – 6 months	10.0	FTD	0.79	134
DZ Bank	5.0	20.0	O - 12 months	5.0	FTD	0.75	91
Insight Investments	0.4	20.0	Triple A rated	0.4	Call	0.50	N/A
Santander	15.0	20.0	Red - 6 months	15.0	180 DN	0.90	N/A
Standard Life Investments	20.0	20.0	Triple A rated	20.0	Call	0.53	N/A
Svenska Handelsbanken	0.1	20.0	Orange – 12 Months	0.1	Call	0.35	N/A
Total Deposits	55.5			55.5			