

HIGHLAND COUNCIL

Agenda Item	10 (a)
Report No	RES/56/18

Committee: Corporate Resources Committee

Date: 21 November 2018

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

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 £85.0m undertaken in the period July to September 2018 and £80.0m of temporary loans were repaid. At 30 September 2018, the total temporary loans balance was £127.0m with an average rate of 0.78% (£122.0m at 30 June 2018, average rate 0.65%).
- 4.2 At the end of the quarter, the total of Public Work Loans Board (PWLB) loans was £631.2m and long term Market loans was £150.8m. There was no new long term borrowing or loan repayments made during the quarter.
- 4.3 Borrowing rates have continued to increase since the Bank Rate rise in November 2017 and subsequent increase 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 have increased since the Bank Rate rise on 2 August 2018.
- 5.2 During the quarter ended 30 September 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 September 2018 is at **Appendix 3**.
- 5.3 When placing temporary deposits the Council uses a weekly credit rating list provided by its Treasury Advisor: 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 this matrix. This gives 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 (TMSS) for 2018/19, was approved by The Highland Council on 8 March 2018 and any amendment to this would be approved by Committee.

6. Implications

- 6.1 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.
- 6.2 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 October 2018

Author: Edward Foster, Head of Corporate Finance & Commercialism

Background Papers: Treasury Live System & Integra financial ledger

Appendix 1

Treasury Management - Summary of Transactions for the Quarter to 30 September 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	631.2	0	0	631.2	4.77	4.77
Market Loans (term less than 5 years)	34.5	0	0	34.5	1.26	1.26
LOBO Market Loans	116.3	0	0	116.3	4.79	4.79
Temporary Loans (term less than year)	122.0	85.0	(80.0)	127.0	0.65	0.78
Bank Balance	(0.1)	0	0.0	(0.1)		
GROSS EXTERNAL BORROWING	903.9	85.0	(80.0)	908.9		
<i>Temporary Deposits</i>	<i>(55.5)</i>	<i>(162.9)</i>	150.1	<i>(68.3)</i>	0.60	0.83
NET EXTERNAL BORROWING	848.4	(77.9)	70.1	840.6		
Total average					4.00	4.08

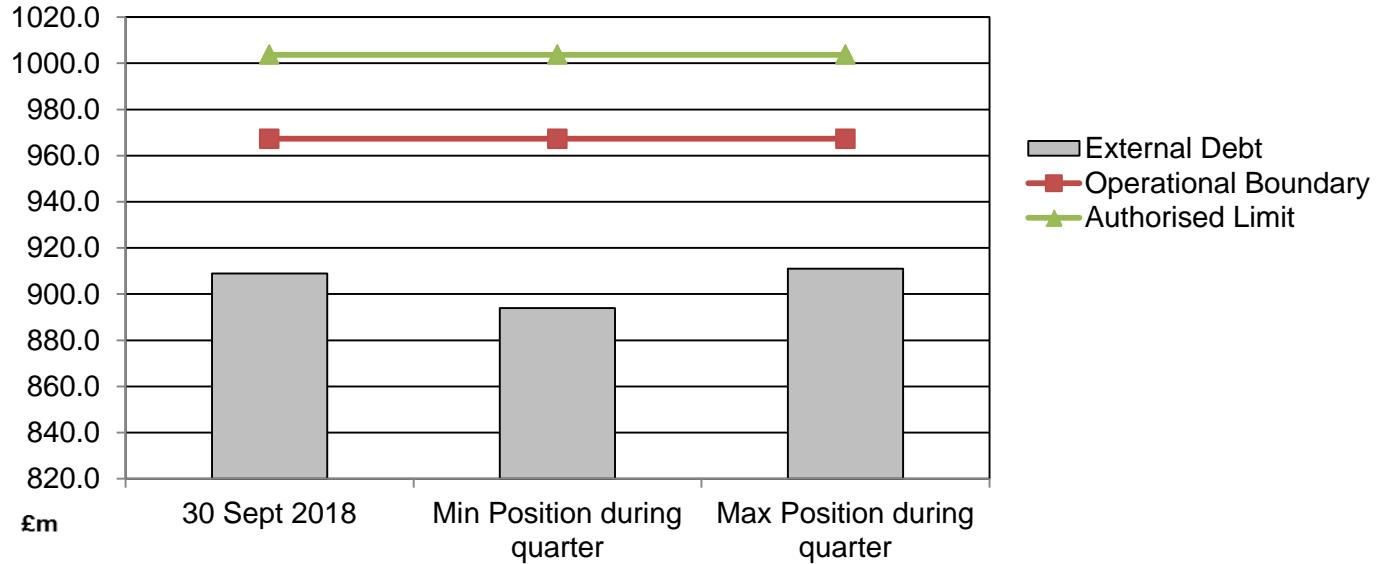
<u>Borrowing / Lending internal parameters as per approved Treasury Management Practices</u>	<u>Actual</u> %	<u>Approved Max</u> %
Short term borrowing as % of the Council's total outstanding debt	14.0%	25.0%
Borrowing at variable rates of interest as % of the Council's total outstanding loan debt	12.8%	35.0%

Appendix 2

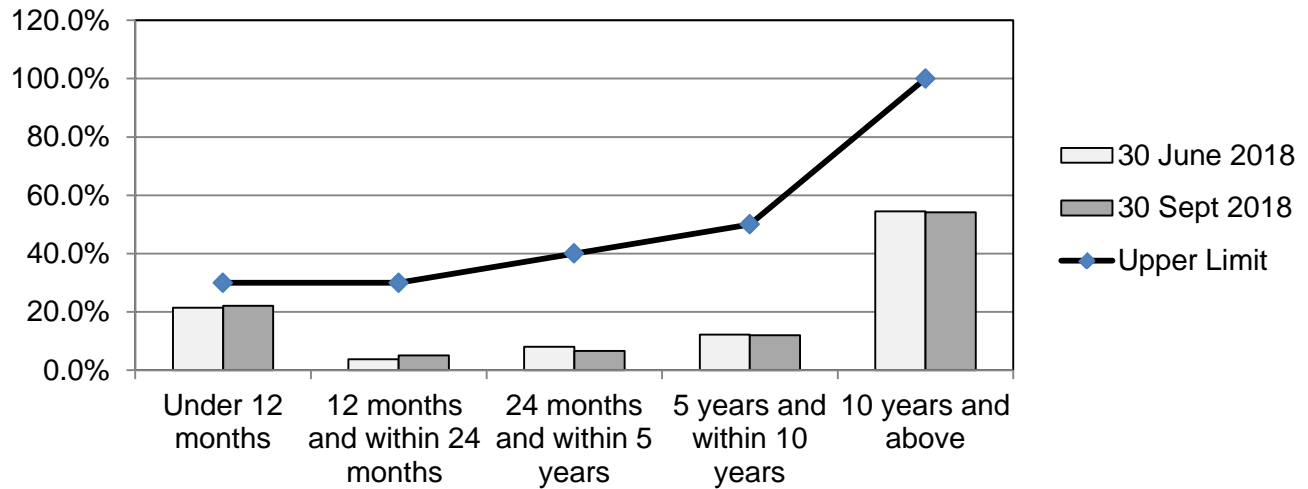
Treasury Management - Prudential Indicators

The Council has complied with all the prudential limits set in the TMSS 2018/19.

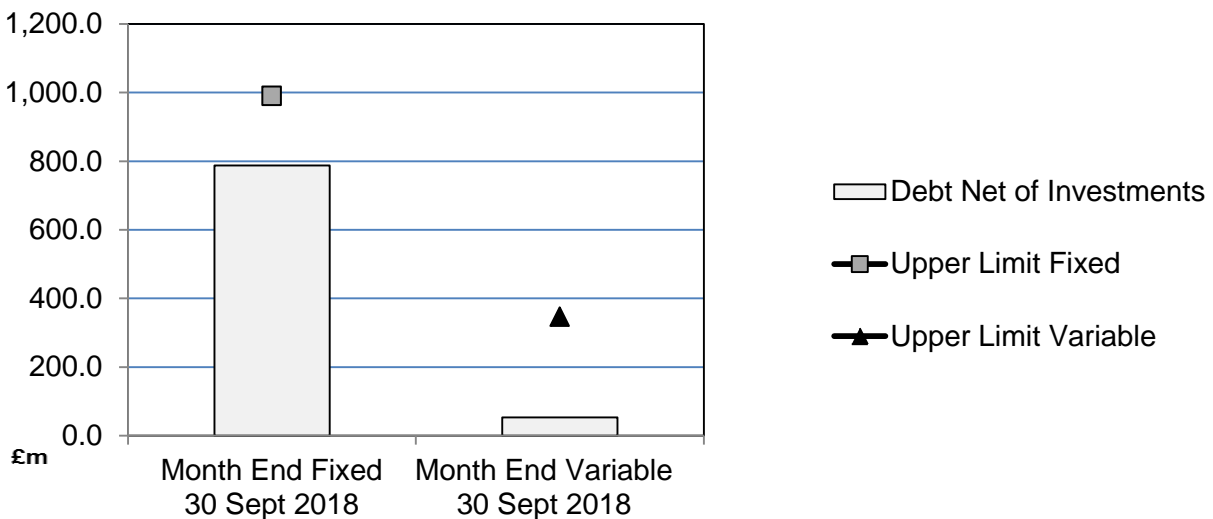
External Debt



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 September 2018.

As stated in the TMSS 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 Sep-18	Amount £m	Deposit Type	Rate Sep-18 %	Duration
Clydesdale Bank	4.6	10.0	No colour - zero	4.6	Call	0.75	N/A
Insight Investments	18.5	20.0	Triple A rated	18.5	Call	0.67	N/A
Santander	15.0	20.0	Red - 6 months	15.0	180 DN	1.15	N/A
	5.0			5.0	95 DN	1.05	
Standard Life Investments	20.0	20.0	Triple A rated	20.0	Call	0.67	N/A
Svenska Handelsbanken	0.1	20.0	Orange – 12 Months	0.1	Call	0.45	N/A
Thurrock Council	5.0	20.0	Purple – 24 Months	5.0	FTD	0.95	196
Total Deposits	68.2			68.2			