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| Agenda Item | 12 |
| Report No | RES/20/19 |

HIGHLAND COUNCIL

Committee: Corporate Resources Committee

Date: 23 May 2019

Report Title: Treasury Management – Summary of Transactions
Quarter ended March 2019

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 was 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 £81.0m undertaken in the period January to March 2019 and £52.0m of temporary loans were repaid. At 31 March 2018, the total temporary loans balance was £186.0m with an average rate of 0.93% (£157.0m at 31 December 2018, average rate 0.84%).

4.2 At the end of the quarter, the total of Public Work Loans Board (PWLB) loans was £642.3m and long term Market loans was £135.8m. The following loans were repaid during the quarter:

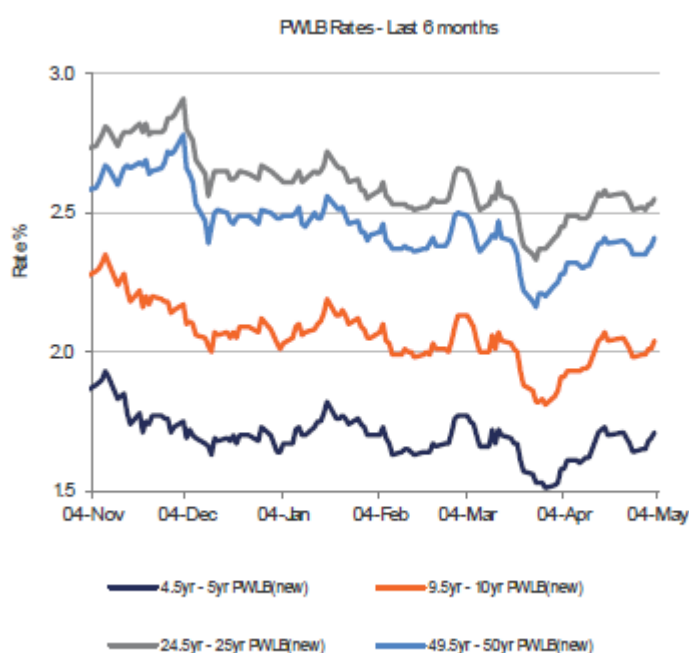
- Market loan £10.0m (rate 1.26%)

At the end of March, PWLB rates decreased considerably and the following borrowing was undertaken:

- PWLB £7.5m (rate 1.90%) for 9.5 years
- PWLB £7.5m (rate 1.82%) for 9.5 years

PWLB rates have risen since the end of March.

4.3



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 31 March 2019 as well as using call account/Money Market Fund (MMF) facilities, a fixed term deposit of £14.2m was placed with Bank of Scotland (rate 0.83%). This was to cover cash flow requirements on 1 April 2019 which included PWLB maturing debt and interest of £42.7m.

In order to secure a better rate on existing cash deposits, an additional MMF with BlackRock was opened and £0.1m was transferred from a call account with Svenska Handelsbanken (rate 0.45%) and placed with BlackRock (rate 0.75%).

A full list of all counterparties as at 31 March 2019 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 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 2019/20 was approved at Corporate Resources Committee on 27 February 2019 any amendment to it would require to be approved by Committee.

For the purposes of this report the TMSS for 2018/19 approved by The Highland Council on 8 March 2018 applies.

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: 26 April 2019

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 31 March 2019

| Type of Borrowing | Outstanding debt at start of quarter £m | Raised £m | Repaid £m | Outstanding debt at end of quarter £m | Average Interest Rate | |
|---------------------------------------|--|---------------|---------------|--|-----------------------|------------------|
| | | | | | 1 Jan 2019 % | 31 Mar 2019 % |
| Public Works Loan Board | 627.3 | 15.0 | (0) | 642.3 | 4.79 | 4.75 |
| Market Loans (term less than 5 years) | 29.5 | 0 | (10.0) | 19.5 | 1.26 | 1.44 |
| LOBO Market Loans | 116.3 | 0 | 0 | 116.3 | 4.79 | 4.79 |
| Temporary Loans (term less than year) | 157.0 | 81.0 | (52.0) | 186.0 | 0.84 | 0.93 |
| Bank Balance | (0.1) | 0.0 | (0) | (0.1) | | |
| GROSS EXTERNAL BORROWING | 930.0 | 96.0 | (62.0) | 964.0 | | |
| <i>Temporary Deposits</i> | (68.4) | (175.2) | 165.2 | (78.4) | 0.85 | 0.86 |
| NET EXTERNAL BORROWING | 861.6 | (79.2) | 103.2 | 885.6 | | |
| Total average | | | | | 4.02 | 3.93 |

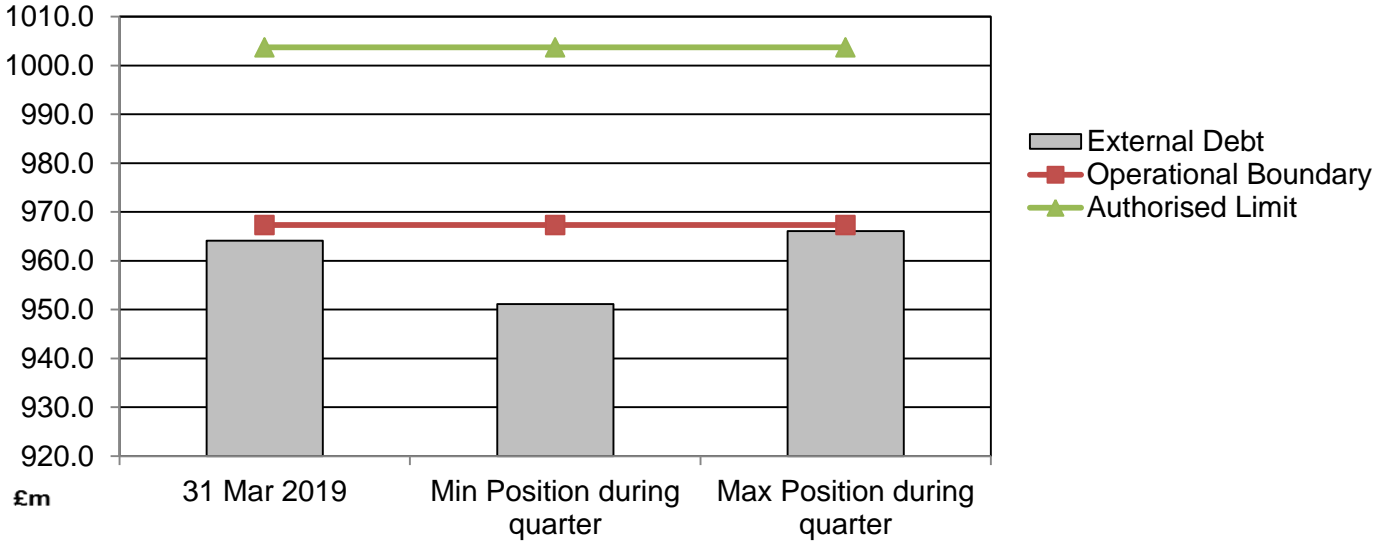
| <u>Borrowing / Lending internal parameters as per approved Treasury Management Practices</u> | <u>Actual</u> % | <u>Approved Max</u> % |
|---|---------------------------|---------------------------------|
| Short term borrowing as % of the Council's total outstanding debt | 19.3% | 25.0% |
| Borrowing at variable rates of interest as % of the Council's total outstanding loan debt | 12.1% | 35.0% |

Appendix 2

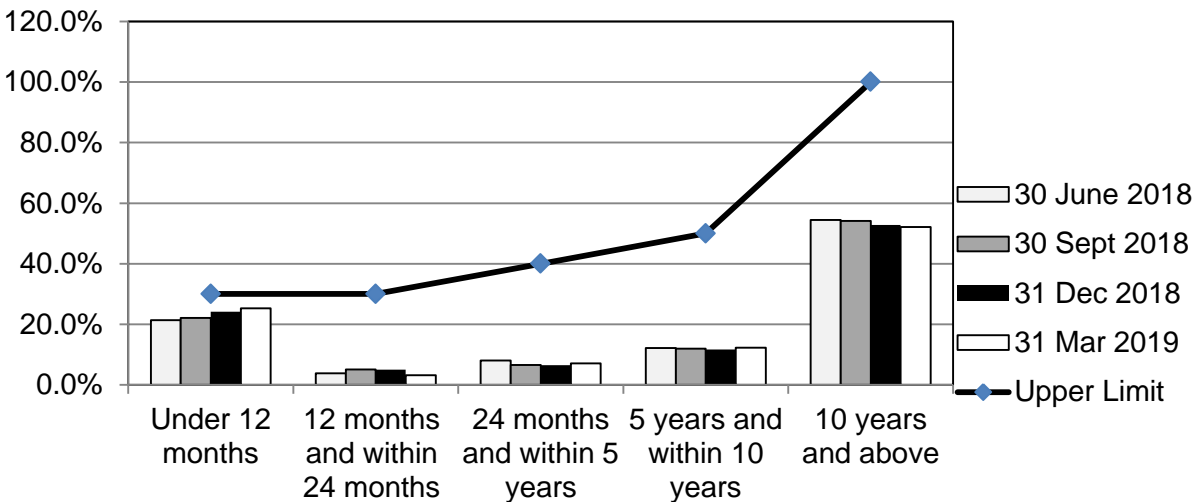
Treasury Management - Prudential Indicators

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

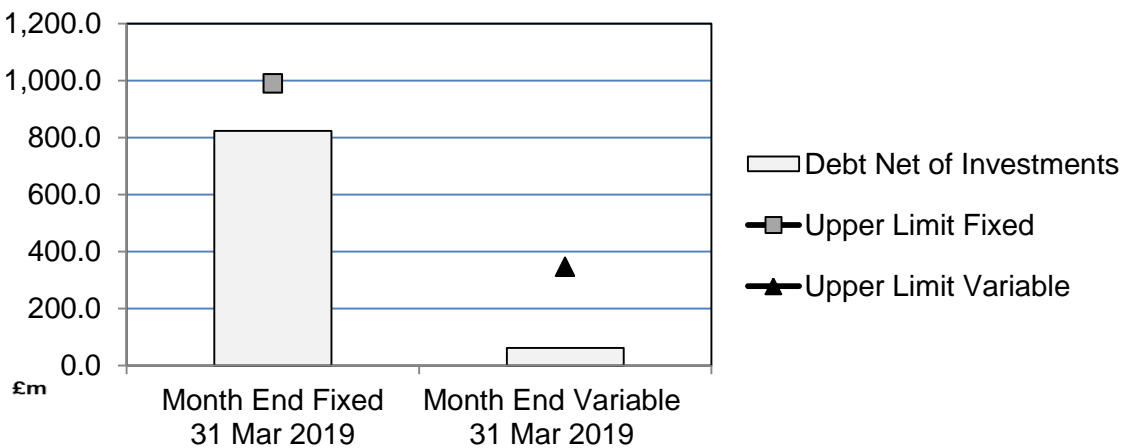
External Debt



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 31 March 2019.

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 Mar-19 | Amount £m | Deposit Type | Rate Dec-18 % | Duration |
|---------------------------|-----------------|------------------------|---------------------------|-------------|--------------|---------------|----------|
| Clydesdale Bank | 6.5 | 10.0 | No colour - zero | 6.5 | Call | 0.75 | N/A |
| Insight Investments | 12.5 | 20.0 | AAA rated | 12.5 | Call | 0.75 | N/A |
| Santander | 15.0 | 20.0 | Red – 6 Months | 10.0 | 180 DN | 1.10 | N/A |
| | | | | 5.0 | 95 DN | 1.00 | |
| Standard Life Investments | 20.0 | 20.0 | AAA rated | 20.0 | Call | 0.79 | N/A |
| BlackRock | 0.1 | 20.0 | AAA rated | 0.1 | Call | 0.75 | N/A |
| Thurrock Council | 5.0 | 20.0 | Purple – 24 Months | 5.0 | FTD | 0.95 | 196 |
| Bank of Scotland | 19.2 | 20.0 | Orange – 12 Months | 5.0 | FTD | 1.00 | 182 |
| Bank of Scotland | | | | 14.2 | FTD | 0.83 | 75 |
| Total Deposits | 78.3 | | | 78.3 | | | |