

Agenda Item	11a
Report No	RES/30/19

HIGHLAND COUNCIL

Committee: Corporate Resources Committee

Date: 28 August 2019

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

Report By: Head of Corporate Resources & Commercialism

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:
 - i. Consider the Treasury Management Summary of Transactions report.

3. Implications

- 3.1 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 such as rates increasing and/or appropriate borrowing may not be available when required

During this quarter, in order to manage this risk and take advantage of favourable PWLB rates, short term borrowing has replaced by long term borrowing and details are included in this report.

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

4. Treasury Management Strategy 2019/20

- 4.1 The strategy set in February 2019 was that during 2019/20 the plan was to continue to use short term borrowing to fund the capital programme but consider long term borrowing to replace maturities and in order to manage refinancing risks.
- 4.2 At the end of March 2019, the level of short term borrowing was £186m and with PWLB rates being favourable and in order to manage risk PWLB was undertaken.

5. Borrowing undertaken and repayments made

- 5.1 There was temporary borrowing of £42.0m undertaken in the period April to June 2019 and £71.0m of temporary loans were repaid. At 30 June 2019, the total temporary loans balance was £157.0m with an average rate of 0.97% (£186.0m at 31 March 2019, average rate 0.93%).
- 5.2 At the end of the quarter, the total of Public Work Loans Board (PWLB) loans was £629.3m and long term Market loans was £145.8m.

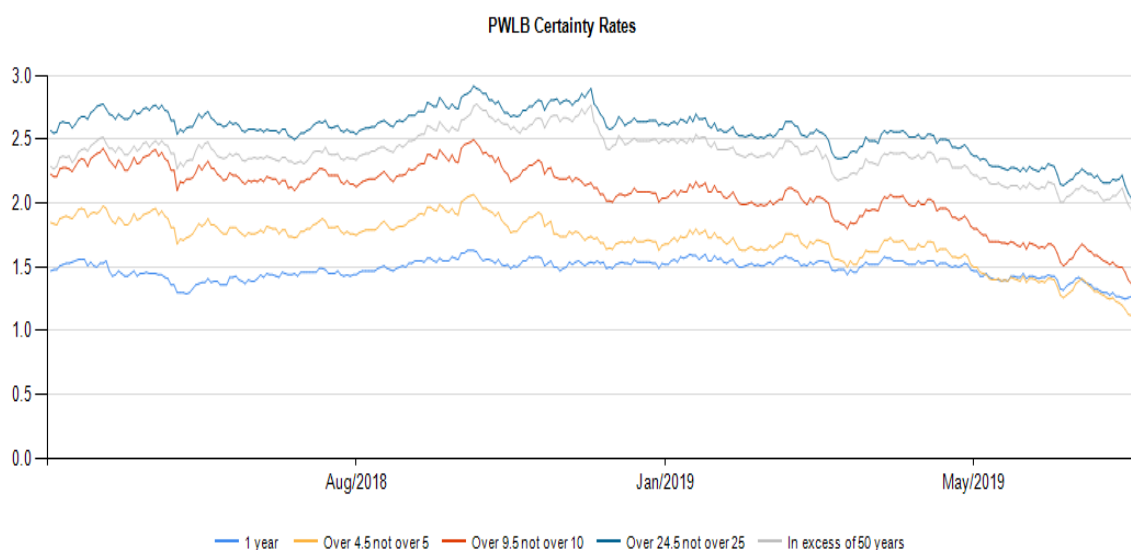
The following long term repayments were made;

- i. PWLB £25.0m (rate 4.12%) taken out in March 2010 for 9.5 years
- ii. PWLB £3.0m (rate 9.38%) taken out in July 1989 for 29.5 years

- 5.3 The following market borrowing was undertaken;
- i. Market Loan £10.0m (rate 1.20%) for 1.5 years

The PWLB rates decreased mid-April (see the graph below) and in order to manage interest rate risk the following PWLB borrowing was undertaken.

- i. £5.0m (rate 2.19%) for 49.5 years
- ii. £5.0m (rate 2.18%) for 42.5 years
- £5.0m (rate 2.11%) for 49.5 years



- 5.4 It should be noted that in Appendix 1, the value of Lenders Option Borrowers Option Loans (LOBOs) loans has decreased compared to previous treasury transaction reports. This is due to a reclassification of the following LOBO loans to market loans in the year-end accounts 2018/19

Counterparty	Amount £	Interest Rate %	Start Date	Maturity Date
Barclays	11,900,000	5.05	03/08/2004	03/02/2065
Barclays	25,000,000	5.00	02/12/2003	02/12/2065
Barclays	25,200,000	5.00	02/12/2003	02/12/2065
Barclays	16,216,000	3.80	23/03/2006	23/03/2066
Total	78,316,000			

Barclays Bank with whom the Council had four Lenders Option Borrowers Option Loans (LOBOs) removed the lenders options from the loans which changed this product to a fixed rate market loan. Barclays did discuss opportunities for Local Authorities to repay the loans but the terms did not provide opportunities for savings.

6. Deposits

- 6.1 The rates on call accounts and money market funds for short term deposits have generally decreased since 31 March 2019.
- 6.2 A fixed term deposit of £14.2m with Bank of Scotland (rate 0.83%) and £5m with Thurrock Council (rate 0.95%) matured on 1 April 2019 along with £10m from Santander 95 day notice a/c (rate 1.00%) and £5m 180 day notice a/c (rate 1.10%) where notice had been given, to help cover cash flow requirements which included PWLB maturing debt and interest of £42.7m.

A full list of all counterparties as at 30 June 2019 is at **Appendix 3**

- 6.3 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.

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.

Designation: Head of Corporate Finance and Commercialism

Date: 05 August 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 30 June 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 Apr 19 %	30 Jun 19 %
Public Works Loan Board	642.3	15.0	(28.0)	629.3	4.75	4.66
Market Loans	97.8	10.0	0	107.8	4.13	3.86
LOBO Market Loans	38.0	0	0	38.0	4.86	4.86
Temporary Loans (term less than 1 year)	186.0	42.0	(71.0)	157.0	0.93	0.97
Bank Balance	(0.1)	0.1	(0)	(0.0)		
GROSS EXTERNAL BORROWING	964.0	67.1	(99.0)	932.1		
<i>Temporary Deposits</i>	(78.4)	(162.1)	185.6	(54.9)	0.86	0.81
NET EXTERNAL BORROWING	885.6	(95.0)	86.6	877.2		
Total loan average					3.93	3.95

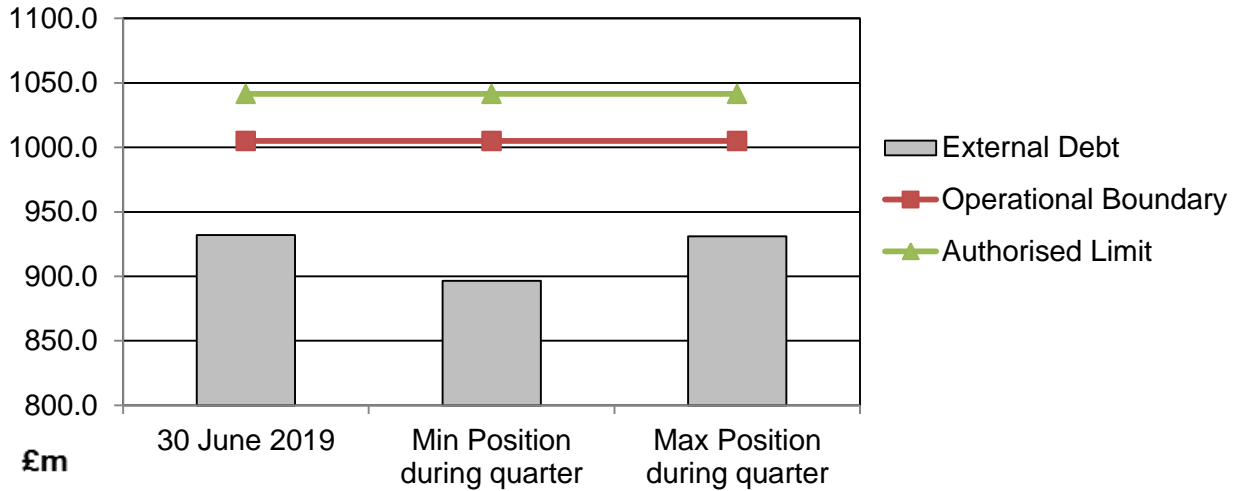
<u>Borrowing / Lending internal parameters as per approved Treasury Management Practices</u>	<u>Actual</u> %	<u>Approved Max</u> %
Short term borrowing as % of the Council's total outstanding debt	16.8%	25.0%
Borrowing at variable rates of interest as % of the Council's total outstanding loan debt	4.1%	35.0%

Appendix 2

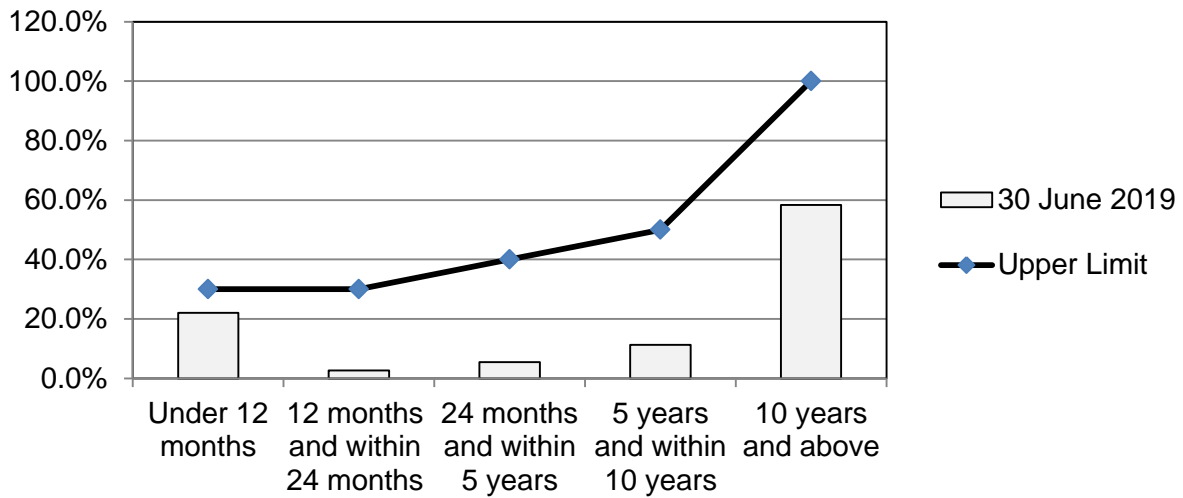
Treasury Management - Prudential Indicators

The Council has complied with all the prudential limits set in the TMSS 2019/20.

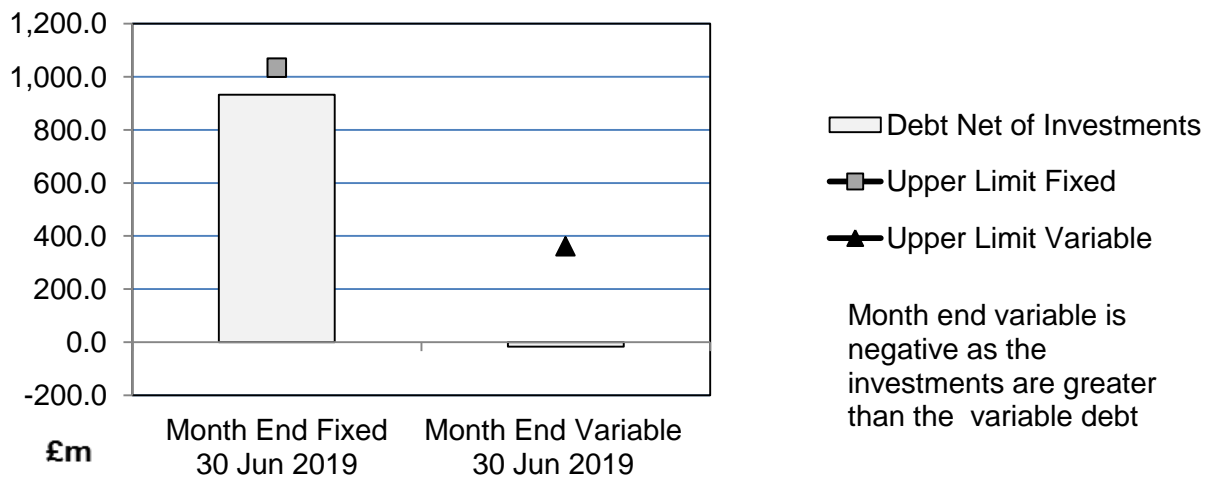
External Debt



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 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 Jun-19	Amount £m	Deposit Type	Rate Dec-18 %	Duration
Clydesdale Bank	8.8	10.0	No colour - zero	8.8	Call	0.75	N/A
Insight Investments MMF	16.0	20.0	AAA rated	16.0	Call	0.74	N/A
Aberdeen Liquidity MMF	20.0	20.0	AAA rated	20.0	Call	0.76	N/A
BlackRock ICS MMF	0.1	20.0	AAA rated	0.1	Call	0.72	N/A
Santander	10.0	20.0	Red – 6 months	10.0	180 DN	1.10	N/A
Total Deposits	54.9			54.9			