

Agenda Item	<b>8</b>
Report No	RES 04/20

## HIGHLAND COUNCIL

**Committee:** Corporate Resources Committee

**Date:** 30 January 2020

**Report Title:** Treasury Management – Summary of Transactions  
Quarter ended 31 December 2019

**Report By:** Executive Chief Officer, Finance and 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. 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.
- 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 Statement 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 to manage refinancing risks.
- 4.2 At the end of September 2019, the level of short-term borrowing had reduced to £109.5m (£157.0m at end of June 2019), after Public Works Loan Board<sup>1</sup> (PWLB) borrowing was undertaken at historically low rates. Following the immediate 1% rate increase implemented by the PWLB at the beginning of November 2019 (see para.5.4) no further PWLB borrowing was undertaken and at the end of December 2019 temporary borrowing had increased to £147.5m.

#### **5. Borrowing undertaken and repayments made**

- 5.1 There was temporary borrowing of £96.0m undertaken in the period October to December 2019 and £58.0m of temporary loans were repaid. At 31 December 2019, the total temporary loans balance was £147.5m with an average rate of 0.92% (£109.5m at 30 September 2019, average rate 0.96%).
- 5.2 Borrowing was kept short in the run up to the Christmas period when historically, temporary borrowing rates rise due to demand and in view of potential market uncertainty caused by Brexit (deadline on 31 Jan 2020).
- 5.3 At the end of the quarter, the total of PWLB loans remained at £698.1m with no new borrowing or repayments made during the quarter. Long term Market loans totalled £145.3m (£145.8m at Sept 19).

The following long-term LOBO repayment was made;

- i. Prudential M&G £0.5m (rate 11.75%) taken out on 19 Nov 1984.

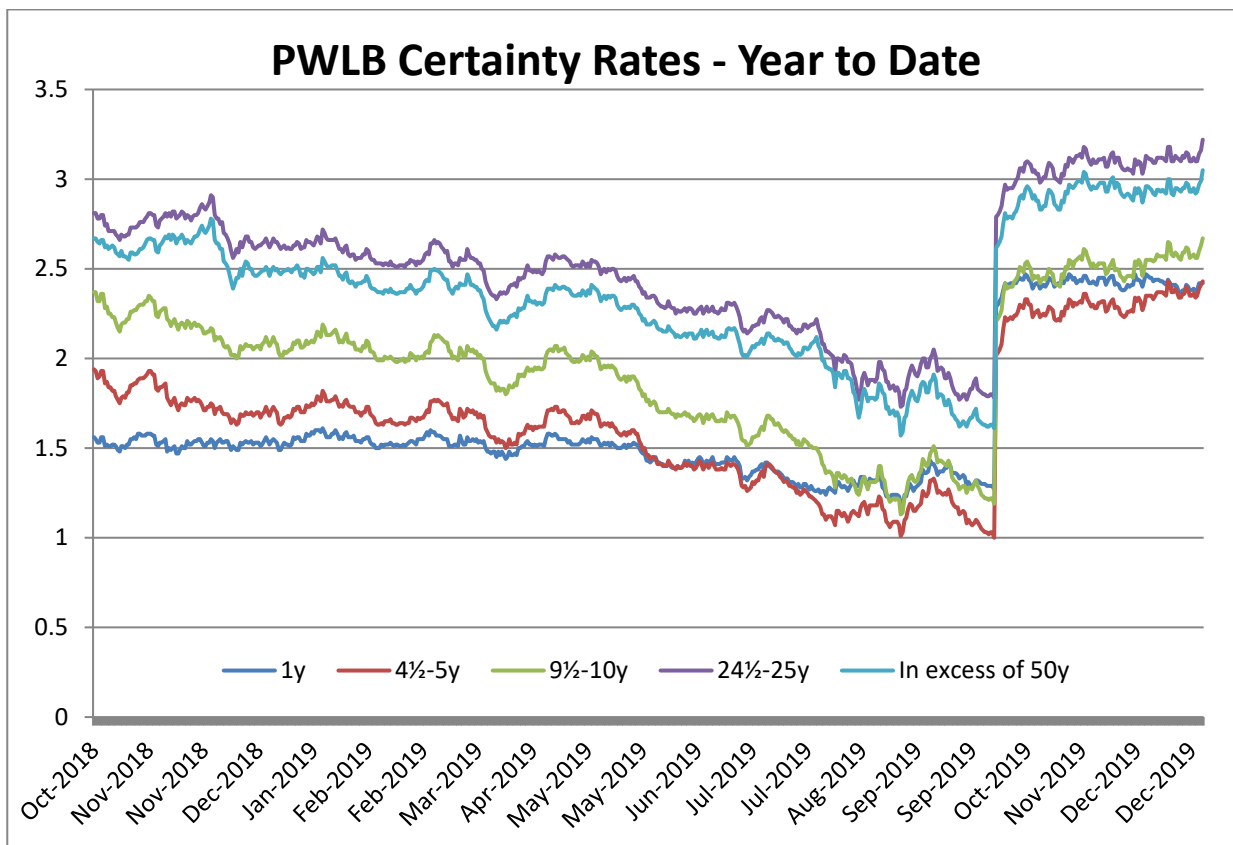
- 5.4 On 9 October 2019 the PWLB announced an immediate rate rise of 1% for all lending periods.

The full announcement is available at this link:

<https://www.dmo.gov.uk/media/16115/hmt-letter-9-october-2019.pdf>

---

<sup>1</sup> Public Works Loan Board (PWLB) – a statutory body operating within the UK Debt Management Office which is an executive agency of HM Treasury, its function being to lend money from the National Loans Fund to local authorities, and to collect the repayments.



## 6. Deposits

- 6.1 The rates on call accounts and money market funds for short term deposits have remained fairly static during the quarter. Deposits were kept liquid and remained in call accounts and Money Market Funds and there were no additional fixed term deposits placed. All investment decisions are taken with reference to CIPFAs code of practice on Treasury Management where security of funds is the overriding consideration, then liquidity then yield.
- 6.2 A full list of all counterparties at 31 December 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.
- 6.4 The transactions reported here have been undertaken in line with The Council's Treasury Management Strategy Statement and Investment Statement (TMSS) for 2019/20 which was approved at Corporate Resources Committee on 27 February 2019.

Designation: Executive Chief Officer, Finance and Resources

Date: 10 January 2020

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 December 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 Sep 19 %	31 Dec 19 %
Public Works Loan Board	698.0	0	0	698.0	4.39	4.39
Market Loans	107.8	0	0	107.8	3.86	3.86
LOBO Market Loans	38.0	0	(0.5)	37.5	4.86	4.76
Temporary Loans (term less than 1 year)	109.5	96.0	(58.0)	147.5	0.96	0.92
Bank Balance	(0.1)	0	(0)	(0.1)		
<b>GROSS EXTERNAL BORROWING</b>	<b>953.2</b>	<b>96.0</b>	<b>(58.5)</b>	<b>990.7</b>		
<i>Temporary Deposits</i>	<i>(78.6)</i>	<i>(170.9)</i>	148.2	<i>(101.3)</i>	0.91	0.87
<b>NET EXTERNAL BORROWING</b>	<b>874.6</b>	<b>(74.9)</b>	89.7	<b>889.4</b>		
Total loan average					3.96	3.83

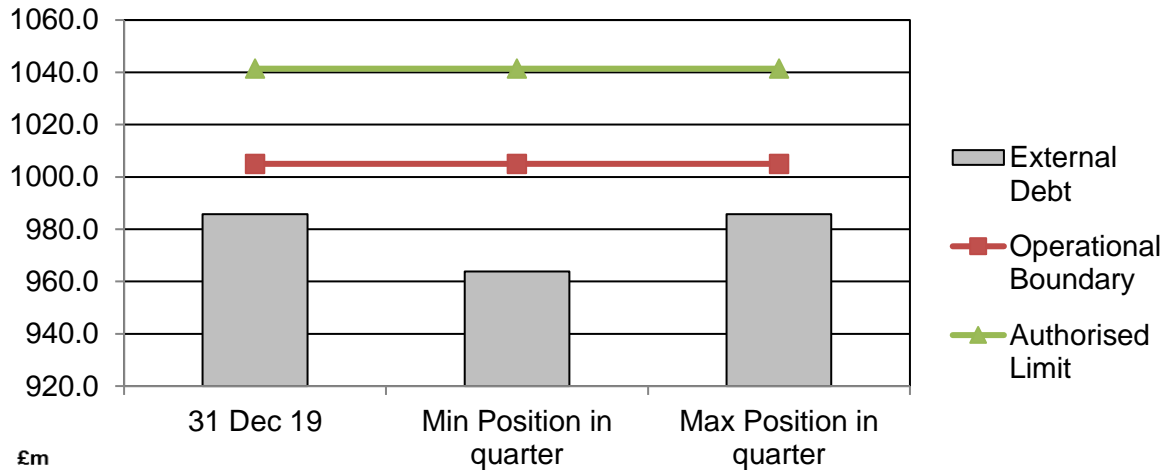
<b><u>Borrowing / Lending internal parameters as per approved Treasury Management Practices</u></b>	<b><u>Actual</u></b> %	<b><u>Approved Max</u></b> %
Short term borrowing as % of the Council's total outstanding debt	14.9%	25.0%
Borrowing at variable rates of interest as % of the Council's total outstanding loan debt	3.8%	35.0%

## Appendix 2

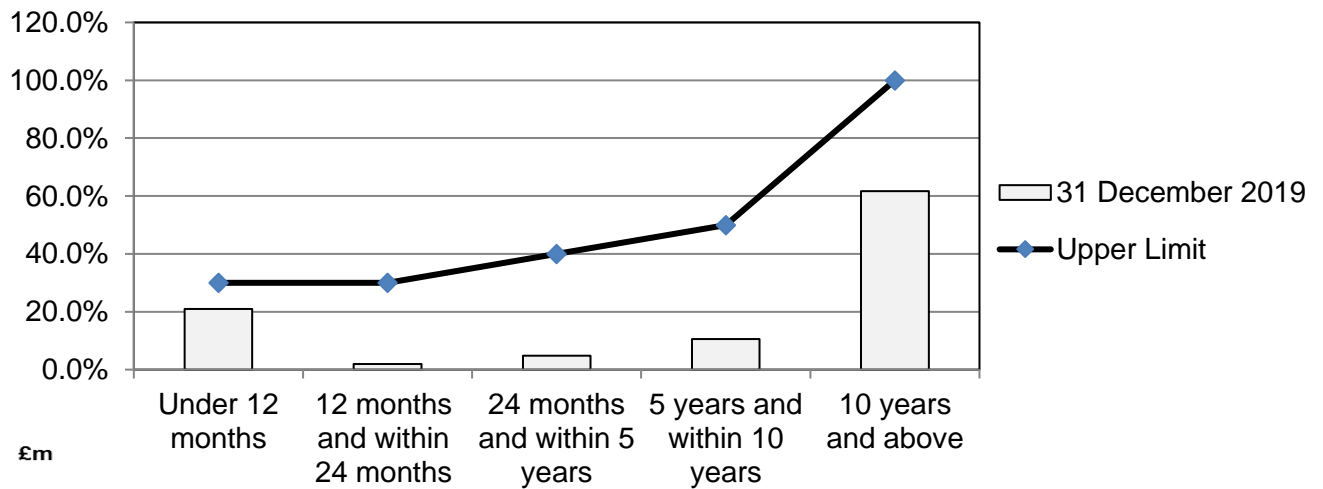
### Treasury Management - Prudential Indicators

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

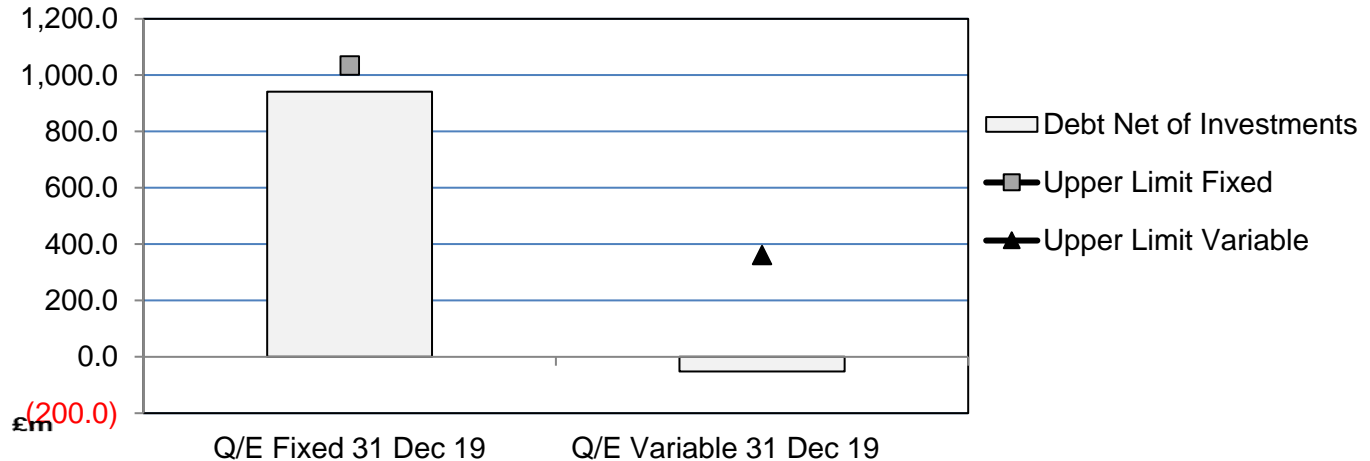
#### External Debt



#### Maturity Structure of Fixed Rate Borrowing



#### Debt Net of Investments



Month end variable is negative as the investments are greater than the variable debt.

## 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 December 2019.

*\* Breached due to ensuring sufficient funds in place to meet commitments during the festive period. 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 Dec 19	Amount £m	Deposit Type	Rate Dec 19 %	Duration
Clydesdale Bank	14.1	10.0	No colour - zero	14.1*	Call	0.75	N/A
Insight Investments MMF	20.0	20.0	AAA rated	20.0	Call	0.72	N/A
Bank of Scotland	19.0	20.0	Orange – 12 months	19.0	95 DN	1.10	N/A
Aberdeen Liquidity MMF	20.0	20.0	AAA rated	20.0	Call	0.74	N/A
BlackRock ICS MMF	8.2	20.0	AAA rated	8.2	Call	0.69	N/A
Santander	20.0	20.0	Red – 6 months	10.0	180 DN	1.10	N/A
				10.0	95 DN		
<b>Total Deposits</b>	<b>101.3</b>			<b>101.3</b>			