

Agenda Item	6(a).
Report No	RES/17/20

HIGHLAND COUNCIL

Committee: Corporate Resources Committee

Date: 12 August 2020

Report Title: Treasury Management – Summary of Transactions
Quarters ended 31 March and 30 June 2020

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 **Appendices 1 and 3**), 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 **Appendices 2 and 4**).

2. Recommendations

- 2.1 Members are asked to consider the Treasury Management Summary of Transactions report for the periods from 1 January to 31 March 2020 and 1 April to 30 June 2020.

3. Implications

- 3.1 Resource and Risk – the policy of using short term borrowing currently 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 2020/21

- 4.1 The strategy set in March 2020 was that during 2020/21 the plan was to continue to use short term borrowing to fund the capital programme but consider long term borrowing to replace maturities in order to manage refinancing risks

Considering the risks within the economic forecast, caution was to be adopted with 2020/21 treasury operations. Interest rates in financial markets were to be regularly monitored and the Council to ensure its strategy remains flexible and adopt a pragmatic approach to changing circumstances. Any decisions were to be reported to the appropriate committee at the next available opportunity.

- 4.2 As a result of the Covid-19 pandemic, gilt yields fell sharply to unprecedented lows as investors moved from equities to government bonds. This meant that at the end of March 2020 PWLB rates became incredibly volatile. Also due to uncertainty, opportunities for short term temporary borrowing from other local authorities were very limited.

Following the fall in gilt yields, in the broad context of rates over recent years PWLB borrowing rates were low at certain points during March 2020. In addition to this, the Treasury introduced the HRA certainty rate on 11 March 2020 which is the gilt yield plus 0.80%. The decision to borrow £29.8m PWLB on 24 March 2020 was to replace maturities of £18.1m on 31 March but was also about mitigating risk to ensure the Council had sufficient cash to be able to meet all cashflow requirements.

On 1 April 2020 the Scottish Government advanced £75.724m to the Council for the payment of Covid-19 business grants. In order that there was readily available cash to pay these grants and manage cashflows, a temporary increase in the counterparty credit limit for the Council's 3 existing Money Market Funds from £20m to £30m was approved by the Executive Chief Officer, Finance and Resources on 19 March. A further MMF was set up and operational from mid-June 2020 and the counterparty limits for all MMFs has now reverted to £20m.

5. Borrowing undertaken and repayments made

- 5.1 There was temporary borrowing of £55.0m undertaken in the period January to March 2020 and £29.0m of temporary loans were repaid. At 31 March 2020, the total temporary loans balance was £173.5m with an average rate of 0.92% (£147.5m at 31 December 2019, average rate 0.92%).

During the period April to June 2020 temporary borrowing of £15.0m was undertaken and £64.5m temporary loans were repaid. As at 30 June 2020, the temporary loans balance was £124.0m with an average rate of 0.91% (£173.5m at 31 March 2020, average rate 0.92%).

- 5.2 As noted in para 4.2, the opportunities for short-term inter-authority lending were very limited towards 31 March 2020 and there were few other options for funding other than the PWLB.

In the new financial year, the Covid-19 outbreak and subsequent lockdown meant initially that temporary borrowing opportunities remained scarce. However, as the Government

grants for Covid-19 business grants filtered in during the quarter ended 30 June 2020
Market supply increased and rates began to fall as lenders came back in.

5.3 At 31 March 2020, the total of PWLB loans was £714.7m with £34.8m new borrowing taken and repayments of £18.1m made during the quarter.

The following PWLB borrowing was undertaken:

- PWLB £5.0m on 11/3/20 (rate 2.07%) for 50 years maturing 30 September 2069
- PWLB £29.8m on 24/3/20 (rate 1.48%) for 50 years maturing 30 September 2069

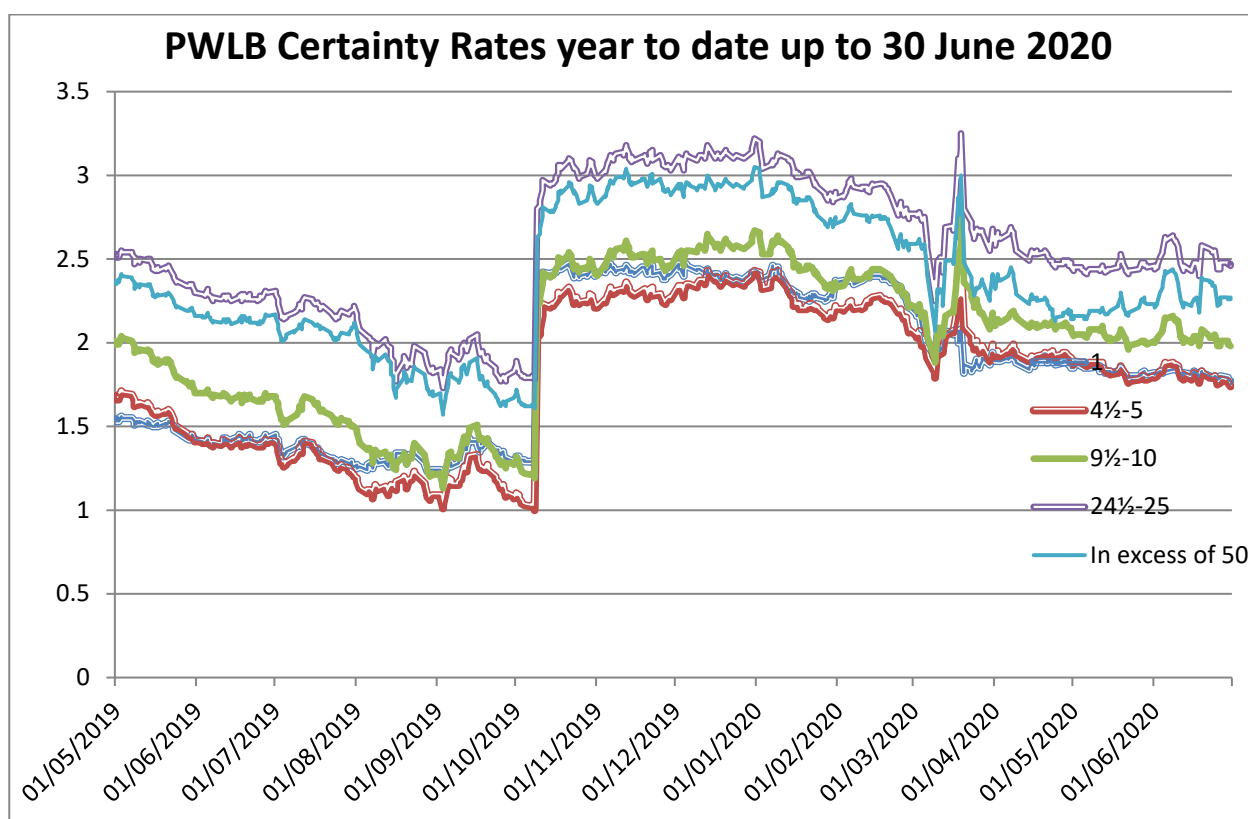
The following PWLB repayments were made:

- PWLB £18.1m on 31 March 2020 (various loans)

Long term Market loans totalled £144.3m (£145.3m at 31 December 2020).

The following long-term LOBO repayments was made;

- Prudential M&G £0.5m (rate 11.38%) taken out on 7 March 1985
- Prudential M&G £0.5m (rate 11.38%) taken out on 7 March 1985



6. Deposits

6.1 The rates on call accounts and money market funds remained fairly static during the quarter ended 31 March 2020 but as the bank rate was reduced to 0.25% on 11 March 2020 and then further to 0.10% on 19 March 2020, rates on Money Market Funds and bank accounts began to fall. For the reasons outlined in para 4.2, deposits were kept liquid and held in call accounts, MMFs and use was made of the Government Debt Management facility. All investment decisions are taken with reference to CIPFA's code

of practice on Treasury Management where security of funds is the overriding consideration, then liquidity then yield.

- 6.2 In May 2020 a Money Market Fund (MMF) Portal was opened which has increased efficiency as it means a consistent, online approach is now used for investing in all the Council's MMFs. Training was provided remotely by the portal supplier to all staff who carry out the treasury function. With staff working remotely, the use of the portal has improved treasury processes as all Treasury staff can access funds and trade from any location and there are also parameters and reports from the portal which can be used to manage MMF counterparty risk. There are no costs to the Council for using the MMF portal.
- 6.3 In addition to implementing the portal and to manage counterparty risk a fourth MMF, the Northern Trust Sterling Cash Fund, was opened during June 2020 and this has allowed us to revert to the £20m counterparty credit limit in line with the Treasury Management Strategy Statement and Investment Statement.
- 6.4 A full list of all counterparties at 30 June 2020 is at **Appendix 3**
- 6.5 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.
- 6.6 The transactions reported here have been undertaken in line with the Council's Treasury Management Strategy Statement and Investment Statement (TMSS) for 2020/21 and from 01 April 2020 the 2020/21 TMSS which was approved at Corporate Resources Committee on 30 January 2020.

7. Treasury operations

- 7.1 As part of business contingency testing, Treasury tested business operations to check that all key treasury functions could be performed remotely. This was a useful exercise and processes were adjusted to enable remote working. This meant that when staff were advised to work from home at short notice due to the Covid-19 pandemic, treasury operations continued to function.
- 7.2 The Treasury operation has continued to operate successfully to support Council operations during Covid-19 emergency measures and maintained key authorisation controls. Also, as noted above (para 6.2) during the lockdown period, the Treasury function implemented efficiencies which include the use of a portal for placing MMF trades. Other cost efficiencies which were already underway before remote working such as reducing paper and printing costs by maintaining an electronic audit trail have been developed further as part of remote working.

Designation: Executive Chief Officer, Finance and Resources

Date: 16 July 2020

Author: Edward Foster, Head of Corporate Finance & Commercialism

Appendix 1

Treasury Management - Summary of Transactions for the Quarter to 31 March 2020

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 20 %	31 Mar 20 %
Public Works Loan Board	698.0	34.8	(18.1)	714.7	4.39	4.26
Market Loans	107.8	0	0	107.8	3.86	3.73
LOBO Market Loans	37.5	0	(1.0)	36.5	4.76	4.58
Temporary Loans (term less than 1 year)	147.5	55.0	(29.0)	173.5	0.92	0.92
Bank Balance	(0)	0	(0.5)	(0.5)		
GROSS EXTERNAL BORROWING	990.8	89.8	(48.6)	1,032.0		
<i>Temporary Deposits</i>	(101.4)	(180.9)	191.3	(91.0)	0.87	0.36
NET EXTERNAL BORROWING	889.4	(91.1)	142.7	941.0		
Total loan average					3.83	3.67

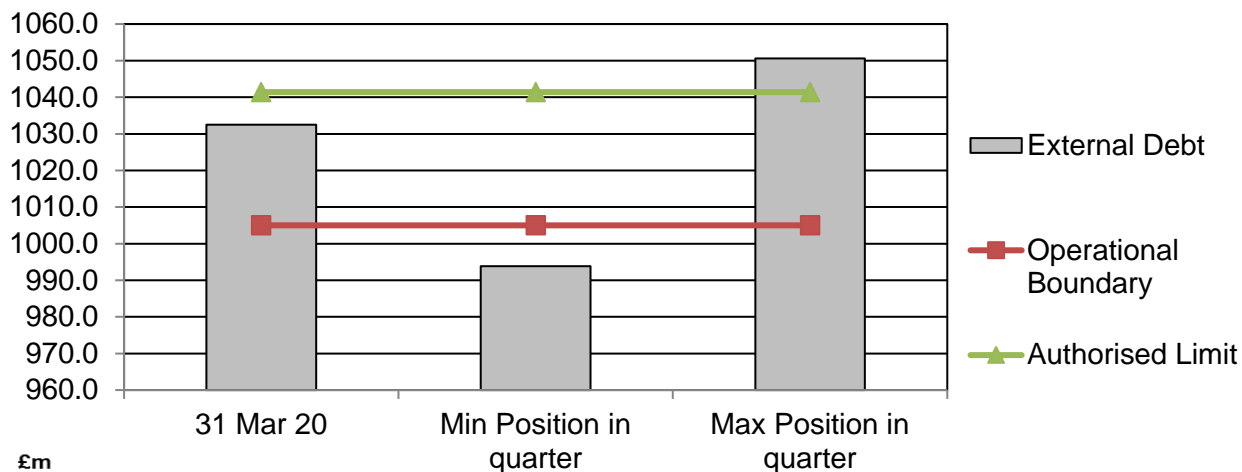
<u>Borrowing / Lending internal parameters as per approved Treasury Management Practices</u>	<u>Actual</u> %	<u>Approved Max</u> %
Short term borrowing as % of the Council's total outstanding debt	16.8%	25.0%
Borrowing at variable rates of interest as % of the Council's total outstanding loan debt	3.5%	35.0%

Appendix 2

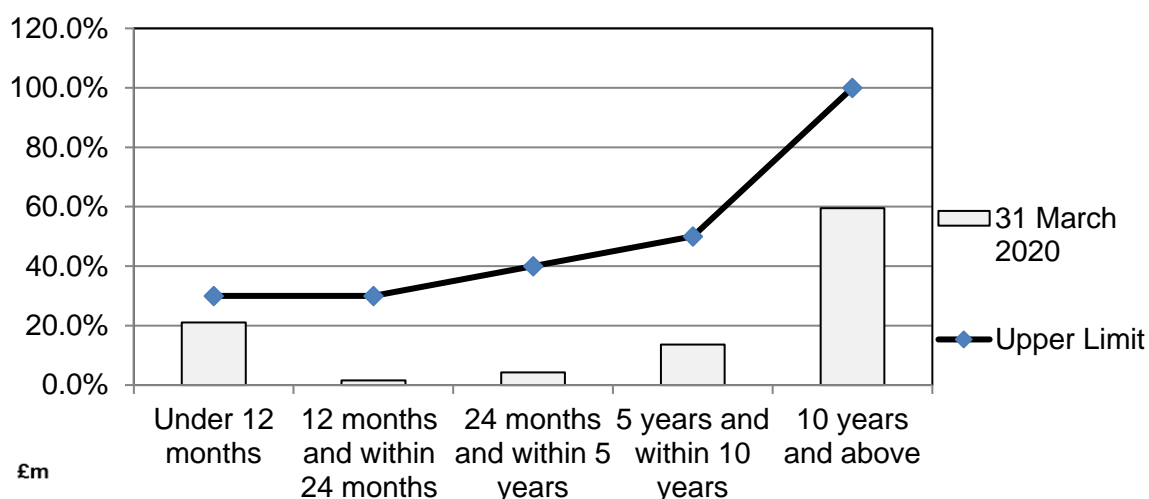
Treasury Management - Prudential Indicators

The Council has complied with all the prudential limits set in the TMSS 2019/20 though for a short period in March 2020 additional borrowing meant borrowing was over the authorised and operational limit.

External Debt

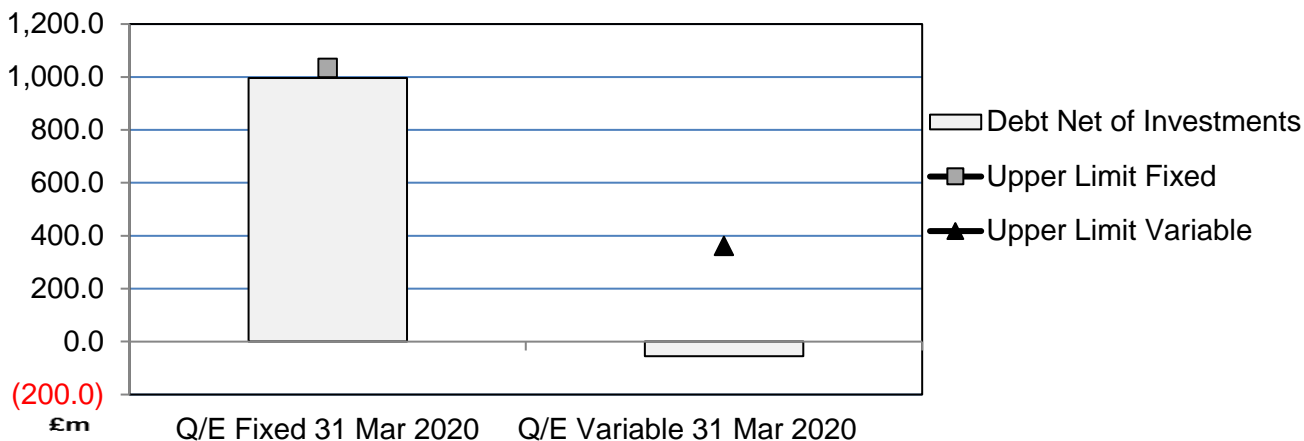


Maturity Structure of Fixed Rate Borrowing



Debt Net of Investments

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



Appendix 3

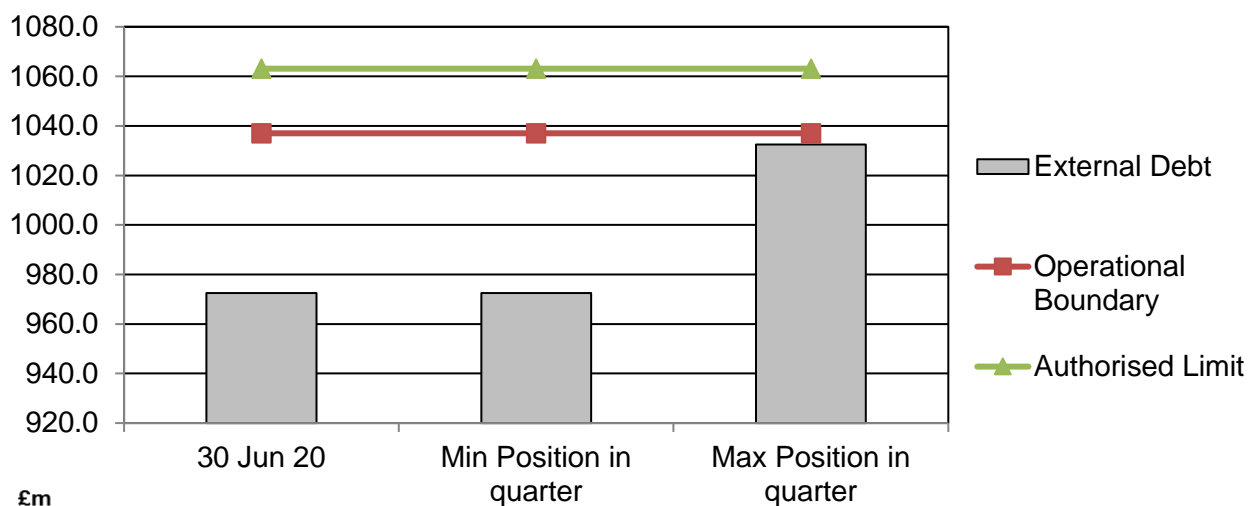
Treasury Management - Summary of Transactions for the Quarter to 30 June 2020

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 20 %	30 Jun 20 %
Public Works Loan Board	714.7	0	0	714.7	4.26	4.26
Market Loans	107.8	0	(10.5)	97.3	3.73	3.98
LOBO Market Loans	36.5	0	(0)	36.5	4.58	4.58
Temporary Loans (term less than 1 year)	173.5	15.0	(64.5)	124.0	0.92	0.91
Bank Balance	(0.5)	0.6	(0)	0.1		
GROSS EXTERNAL BORROWING	1,032	15.6	(75.0)	972.6		
<i>Temporary Deposits</i>	<i>(91.0)</i>	<i>(263.8)</i>	292.0	<i>(62.8)</i>	0.36	0.36
NET EXTERNAL BORROWING	941.0	(248.2)	217.0	909.8		
Total loan average					3.67	3.83

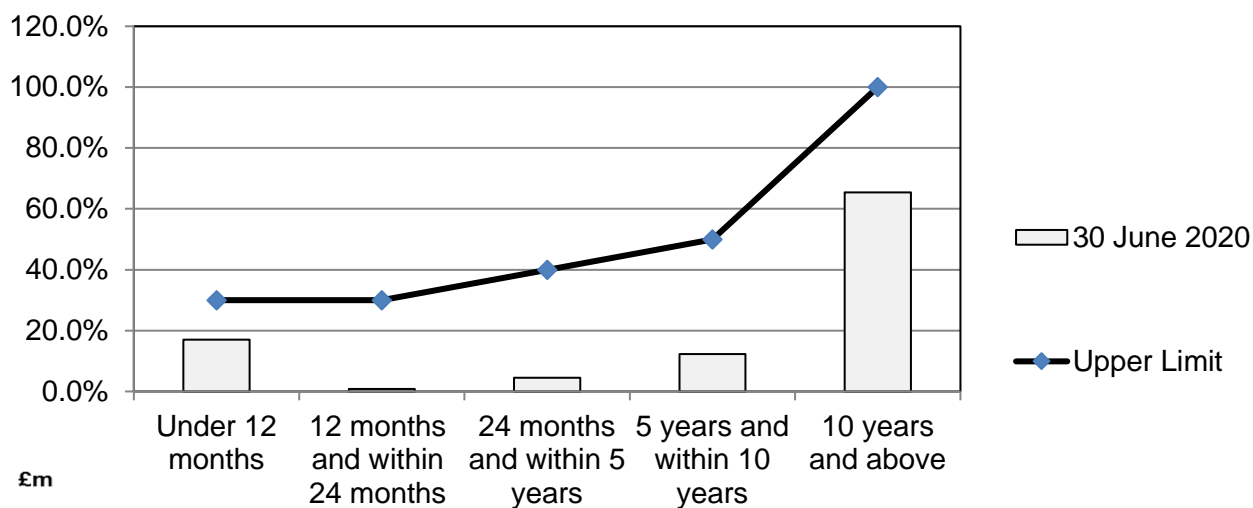
<u>Borrowing / Lending internal parameters as per approved Treasury Management Practices</u>	<u>Actual</u> %	<u>Approved Max</u> %
Short term borrowing as % of the Council's total outstanding debt	12.8%	25.0%
Borrowing at variable rates of interest as % of the Council's total outstanding loan debt	3.8%	35.0%

Appendix 4

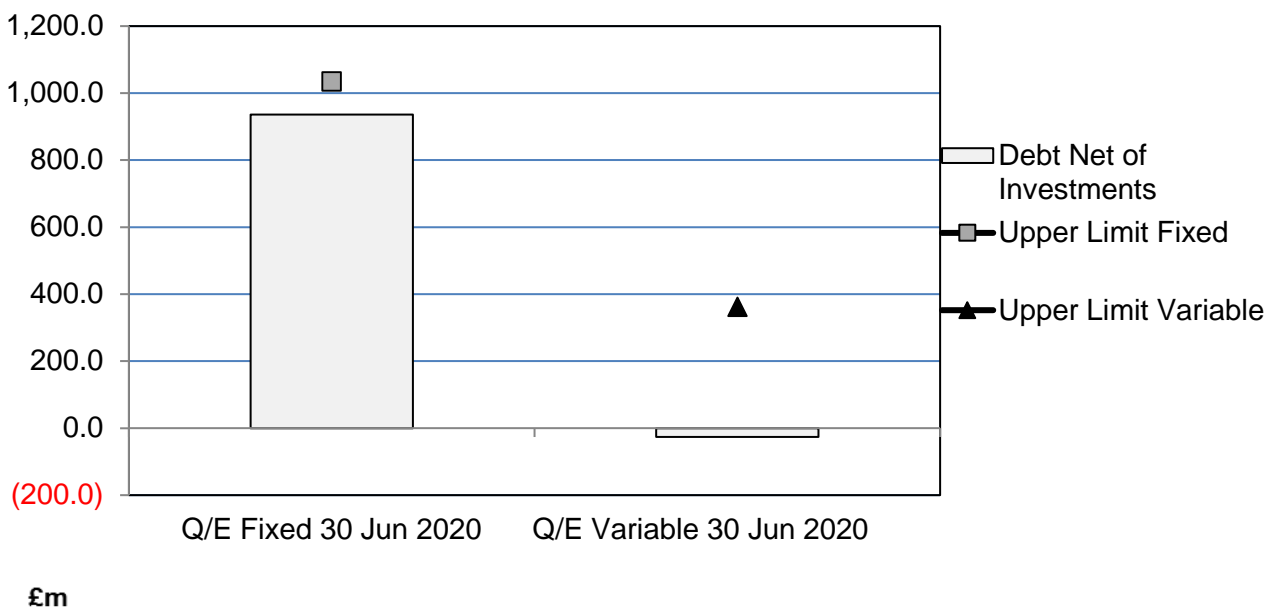
External Debt



Maturity Structure of Fixed Rate Borrowing



Debt Net of Investments



Appendix 5

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 2020.

Counterparty	Total amount £m	Counter party limit £m	Link credit rating Jun 20	Amount £m	Deposit Type	Rate Jun 20 %	Duration
Clydesdale Bank	8.0	10.0	No colour - zero	8.0	Call	0.10	N/A
Insight Investments MMF	0.1	20.0	AAA rated	0.1	Call	0.16	N/A
Northern Trust MMF	14.6	20.0	AAA rated	14.6	Call	0.19	N/A
Aberdeen Liquidity MMF	20.0	20.0	AAA rated	20.0	Call	0.24	N/A
BlackRock ICS MMF	0.1	20.0	AAA rated	0.1	Call	0.19	N/A
Santander	20.0	20.0	Red – 6 months	20.0	95 DN	0.70	N/A
Total Deposits	62.8			62.8			