

Agenda Item	7.a
Report No	RES/27/20

HIGHLAND COUNCIL

Committee: Corporate Resources Committee

Date: 11 November 2020

Report Title: Treasury Management – Summary of Transactions
Quarter ended 30 September 2020

Report By: Executive Chief Officer, Resources and Finance

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 for the period from 1 July to 30 September 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 by 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 Funds started to become more readily available than they had been at the start of the financial year but the impact of Covid-19 continued to be felt with many in the money market adopting a cautious approach to lending. By mid-July 2020 the majority of Scottish Government Covid-19 business grants (funded from £75.724m received by the Council on 01 April 2020) had been paid out.

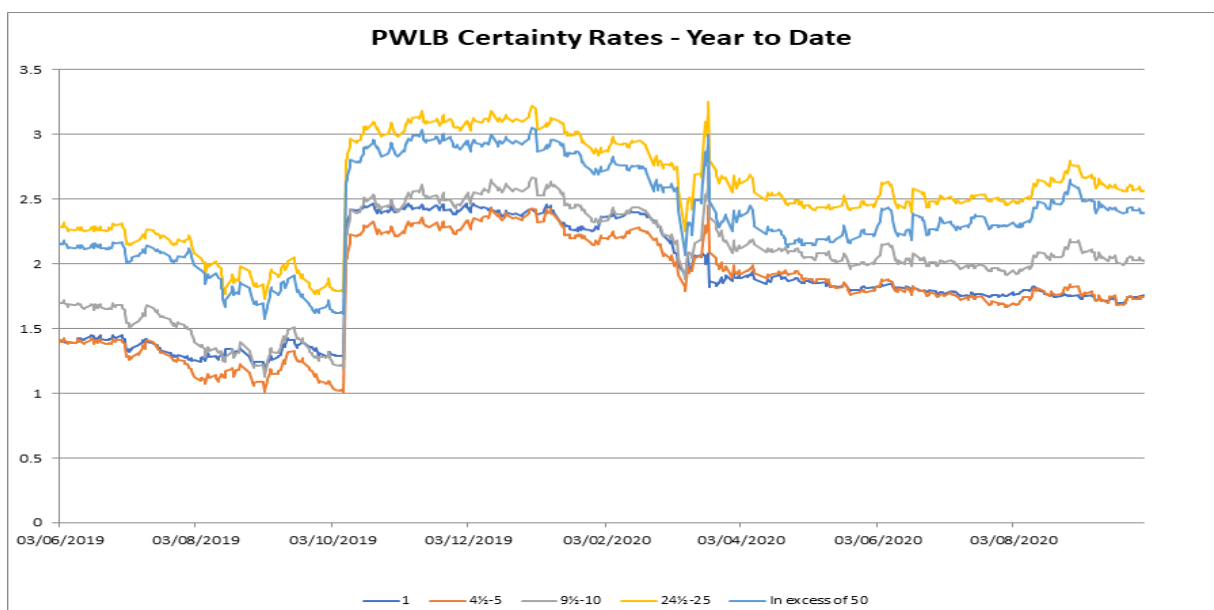
5. Borrowing undertaken and repayments made

- 5.1 There was temporary borrowing of £30.0m undertaken in the period July to September 2020 and £56.5m of temporary loans were repaid. At 30 September 2020, the total temporary loans balance was £97.5m with an average rate of 0.77% (£124.0m at 30 June 2020, average rate 0.91%).

- 5.2 As Government grants for Covid-19 business grants were mostly paid out by mid-July market supply levelled off somewhat but was mitigated by many in the market continuing to keep very liquid cash balances (investing in call accounts and money market funds (MMFs) rather than lending fixed term to other Authorities).

- 5.3 At 30 September 2020, the total of PWLB loans was £702.7m with no new borrowing taken and repayments of £12.0m made during the quarter. Long term Market loans totalled £133.8m (£133.8m at 30 June 2020). The following PWLB repayments were made:

- PWLB £12.0m on 30 September 2020 (various loans)



6. Deposits

- 6.1 Cash flow, uncertainty, and the need to maintain liquidity in these unprecedented times, has meant the Council has held the majority of cash balances in Money Market funds (MMFs). The MMF yields have continued to fall due to the decrease in bank rate with MMF providers adjusting their fees so that net yields remain above zero. This low bank rate environment has seen a number of market operators, now including the Government Debt Management Account Deposit Facility (DMADF), offer nil or negative rates for very short-term maturities though all the MMFs used by the Council are still offering a marginally positive return.

In line with the approach being taken by other Local Authorities, deposits were kept liquid and held in call accounts and MMFs, with limited use made of the DMADF, in particular avoiding durations with a negative interest rate. 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 and finally yield.

- 6.2 A full list of all counterparties at 30 September 2020 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 2020/21 which was approved at Council on 12 March 2020.

Designation: Executive Chief Officer, Finance and Resources

Date: 12 October 2020

Author: Edward Foster, Head of Corporate Finance & Commercialism

Background Papers:

https://www.highland.gov.uk/download/meetings/id/76593/item_15_treasury_management_strategy_statement_and_investment_statement_202021

https://www.highland.gov.uk/download/meetings/id/76866/item_6a_treasury_management_summary_of_transactions

Appendix 1

Treasury Management - Summary of Transactions for the Quarter to 30 September 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 June 20 %	30 Sept 20 %
Public Works Loan Board	714.7	0	(12.0)	702.7	4.26	4.20
Market Loans	97.3	0	0	97.3	3.98	3.98
LOBO Market Loans	36.5	0	0	36.5	4.58	4.58
Temporary Loans (term less than 1 year)	124.0	30.0	(56.5)	97.5	0.91	0.77
Bank Balance	0.1	0	(0.1)	(0)		
GROSS EXTERNAL BORROWING	972.6	30.0	(68.6)	934.0		
<i>Temporary Deposits</i>	(62.8)	(197.2)	171.7	(88.3)	0.36	0.04
NET EXTERNAL BORROWING	909.8	(167.2)	103.1	845.7		
Total loan average					3.83	3.85

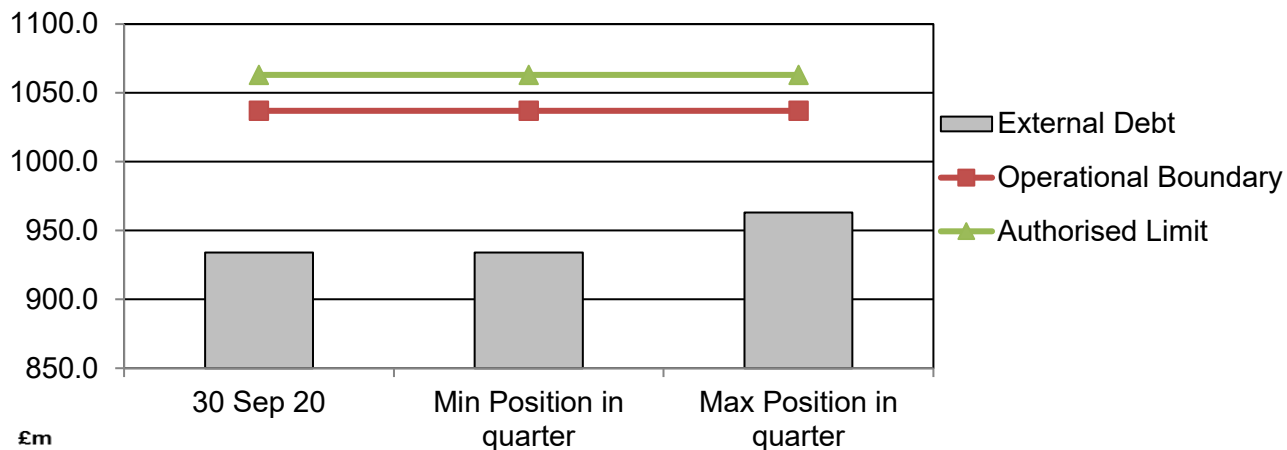
<u>Borrowing / Lending internal parameters as per approved Treasury Management Practices</u>	<u>Actual</u> %	<u>Approved Max</u> %
Short term borrowing as % of the Council's total outstanding debt	10.4%	25.0%
Borrowing at variable rates of interest as % of the Council's total outstanding loan debt	3.9%	35.0%

Appendix 2

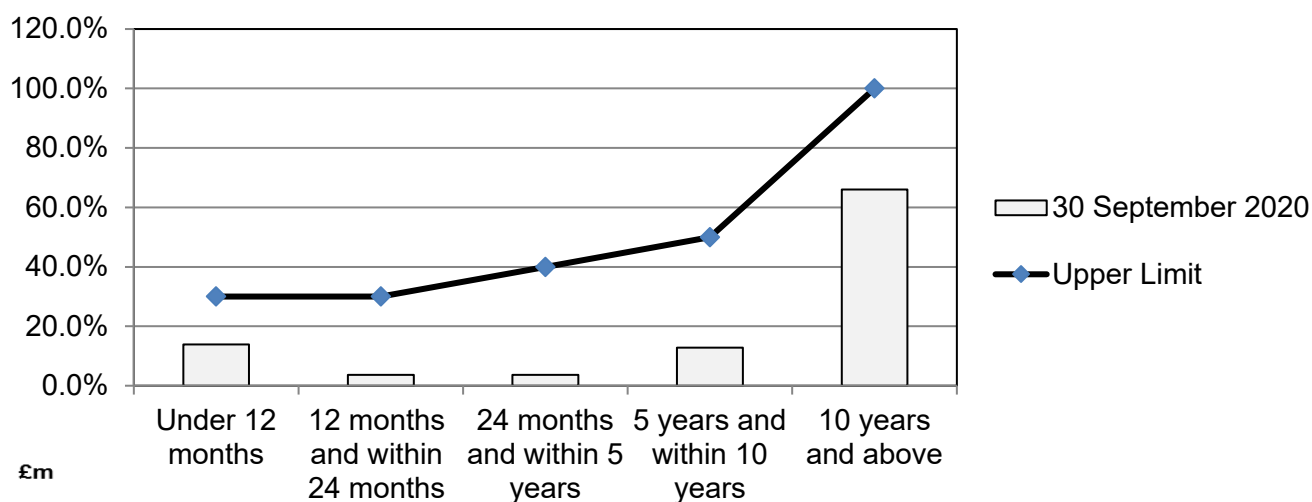
Treasury Management - Prudential Indicators

The Council has complied with all the prudential limits set in the TMSS 2020/21.

External Debt

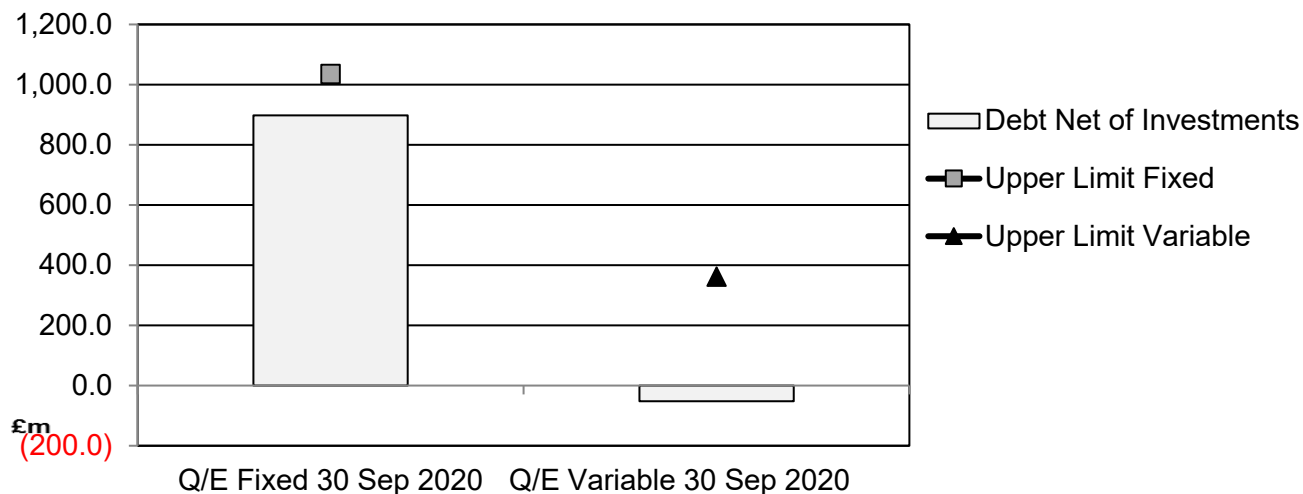


Maturity Structure of Fixed Rate Borrowing



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 30 September 2020.

Counterparty	Total amount £m	Counter party limit £m	Link credit rating Sep 20	Amount £m	Deposit Type	Rate Sep 20 %	Duration
Clydesdale Bank	9.2	10.0	No colour - zero	9.2	Call	0.10	N/A
Insight Investments MMF	20.0	20.0	AAA rated	20.0	Call	0.01	N/A
Northern Trust MMF	20.0	20.0	AAA rated	20.0	Call	0.02	N/A
Aberdeen Liquidity MMF	20.0	20.0	AAA rated	20.0	Call	0.08	N/A
BlackRock ICS MMF	18.9	20.0	AAA rated	18.9	Call	0.01	N/A
Total Deposits	88.1			88.1			