

Agenda Item	<b>9a.</b>
Report No	<b>RES/27/21</b>

## HIGHLAND COUNCIL

**Committee:** Corporate Resources Committee

**Date:** 25 August 2021

**Report Title:** Treasury Management – Summary of Transactions  
Quarter ended 30 June 2021

**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 April to 30 June 21.

### 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 (TMSS) 2021/22

4.1 The strategy set in February 2021 was that during 2021/22 the plan is 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.

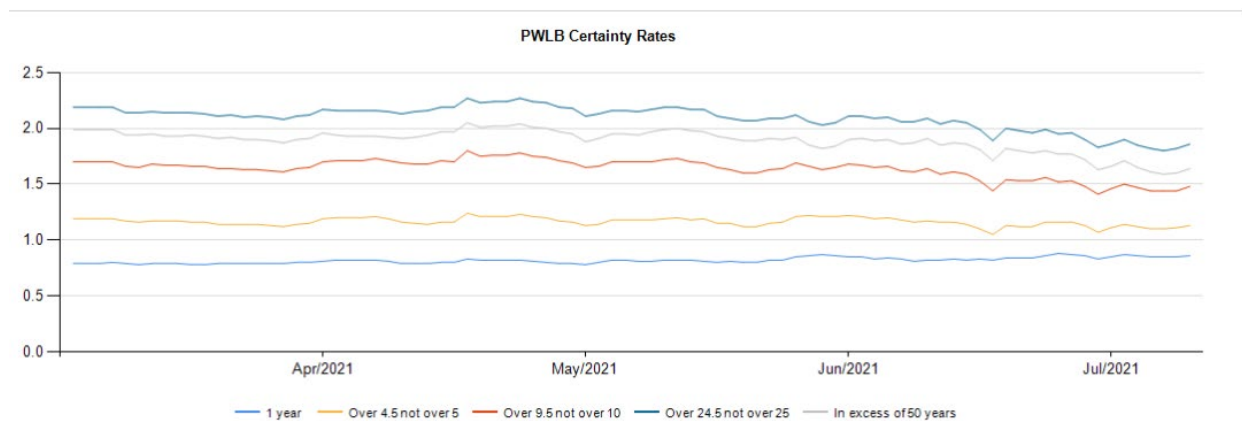
Considering the risks within the economic forecast, caution will be adopted with 2021/22 treasury operations. Interest rates in financial markets will be regularly monitored by the Council to ensure its strategy remains flexible and a pragmatic approach will be adopted to take account of changing circumstances. Any decisions will be reported to the appropriate committee at the next available opportunity.

4.2 Borrowing at historically low rates was readily available during the quarter. Spend on the Council's capital programme continued to be affected by COVID-19 impacting on delivery timescales for projects as well as anticipated project costs.

#### 5. Borrowing undertaken and repayments made

5.1 There was temporary borrowing of £10.0m undertaken in the period April to June 2021 and £43.0m of temporary loans were repaid. At 30 June 2021, the total temporary loans balance was £98.0m with an average rate of 0.24% (£131.0m at 31 March 2021, average rate 0.29%).

5.2 At 30 June 2021, the total of PWLB loans was £703.7m (£698.7 at 31 March 21) with new borrowing of £5.0m undertaken during the quarter. Long term Market loans totalled £124.8m with repayments of £9.0m undertaken during the quarter (£133.8m at 31 March 2021).



5.3 During April 2020 the following long-term Market Loans were repaid;

- £5,000,000 start date 14/04/2016, 4 years at a rate of 1.50%
- £4,000,000 start date 01/04/2016, 4 years at a rate of 1.50%

PWLB rates for the year to 30 Jun 2021 are shown in the graph above. Local authorities are denied access to borrowing from the PWLB for investment purposes. Margins over gilt yields are as follows:

- PWLB Standard Rate is gilt plus 100 basis points (G+100bps)
- PWLB Certainty Rate is gilt plus 80 basis points (G+80bps)
- PWLB HRA Standard Rate is gilt plus 100 basis points (G+100bps)

- PWLB HRA Certainty Rate is gilt plus 80bps (G+80bps)
- Local Infrastructure Rate is gilt plus 60bps (G+60bps)

## 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). In the period reported the MMF yields remained low with MMF providers adjusting their fees so that net yields remain above zero.
- 6.2 In line with the approach being taken by other Local Authorities, deposits were in the main kept liquid and held in call accounts and MMFs, a deposit of £20m was placed with Santander at 0.40% to lock in some cash flow certainty and take advantage of a preferential 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.
- 6.3 On 5 March 2021, the Executive Chief Officer, Resources and Finance approved a temporary increase to the counterparty limits on the MMFs from £20m to £30m until 31 March 2021, this was later extended to the end of April 2021. The increase was required to accommodate cash flow fluctuations between the receipt of Covid grants from the Scottish Government and onward payment to local businesses. The limit has subsequently reverted to £20m per counterparty.
- 6.4 During June 21, the Clydesdale Bank credit rating was raised from *No Colour-0 days* to *G-100 days*. Following this change the counterparty limit has been increased from £10m to £20m in line with the TMSS, which brings the Clydesdale in line with the other counterparties on the Council's counterparty list.
- 6.5 A full list of all counterparties at 30 June 2021 is at **Appendix 3**
- 6.6 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.
- 6.7 The transactions reported here have been undertaken in line with the Council's Treasury Management Strategy Statement and Investment Statement for 2021/22 which was approved at Council on 25 February 2021.

Designation: Executive Chief Officer, Resources and Finance

Date: 11 August 2021

Author: Edward Foster, Head of Corporate Finance & Commercialism

Background Papers:

[Corporate Resources Committee | The Highland Council](#)

## Appendix 1

### Treasury Management - Summary of Transactions for the Quarter to 30 June 2021

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 21 %	30 Jun 21 %
Public Works Loan Board	698.7	5.0	0	703.7	4.18	4.17
Market Loans	97.3	0	(9.0)	88.3	4.12	4.33
LOBO Market Loans	36.5	0	0	36.5	4.58	4.58
Temporary Loans (term less than 1 year)	131.0	10.0	(43.0)	98.0	0.29	0.24
Bank Balance	0	0	0	0		
<b>GROSS EXTERNAL BORROWING</b>	<b>963.5</b>	<b>15.0</b>	<b>(52.0)</b>	<b>926.5</b>		
<i>Temporary Deposits</i>	<i>(112.6)</i>	<i>(211.7)</i>	227.4	<i>(96.9)</i>	0.01	0.10
<b>NET EXTERNAL BORROWING</b>	<b>850.9</b>	<b>(196.7)</b>	175.4	<b>829.6</b>		
Total loan average					3.66	3.78

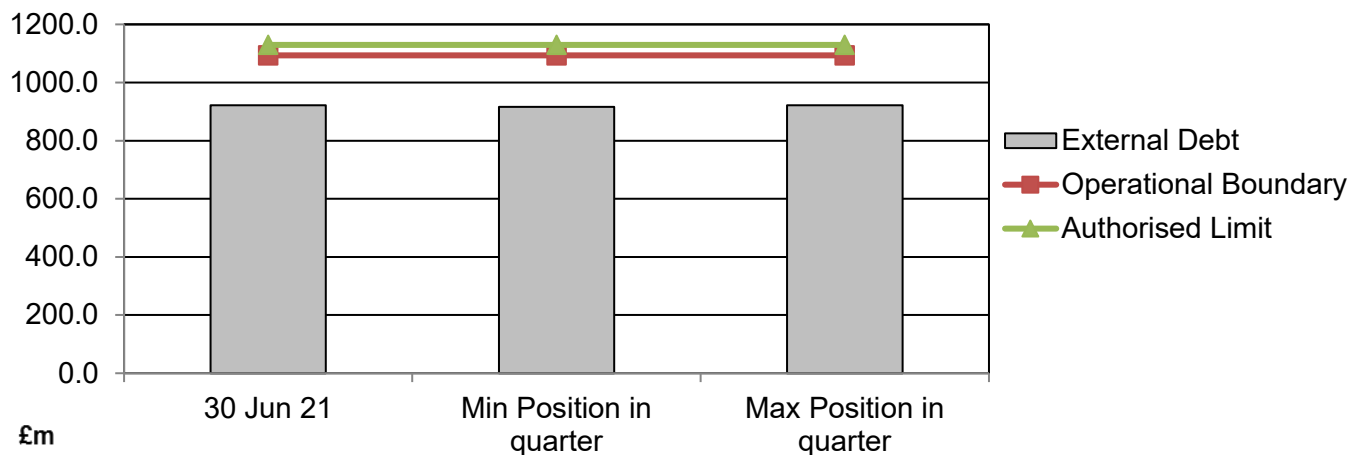
<b><u>Borrowing / Lending internal parameters as per approved Treasury Management Practices</u></b>	<b><u>Actual</u></b> %	<b><u>Approved Max</u></b> %
Short term borrowing as % of the Council's total outstanding debt	10.6	25.0
Borrowing at variable rates of interest as % of the Council's total outstanding loan debt	3.9	35.0

## Appendix 2

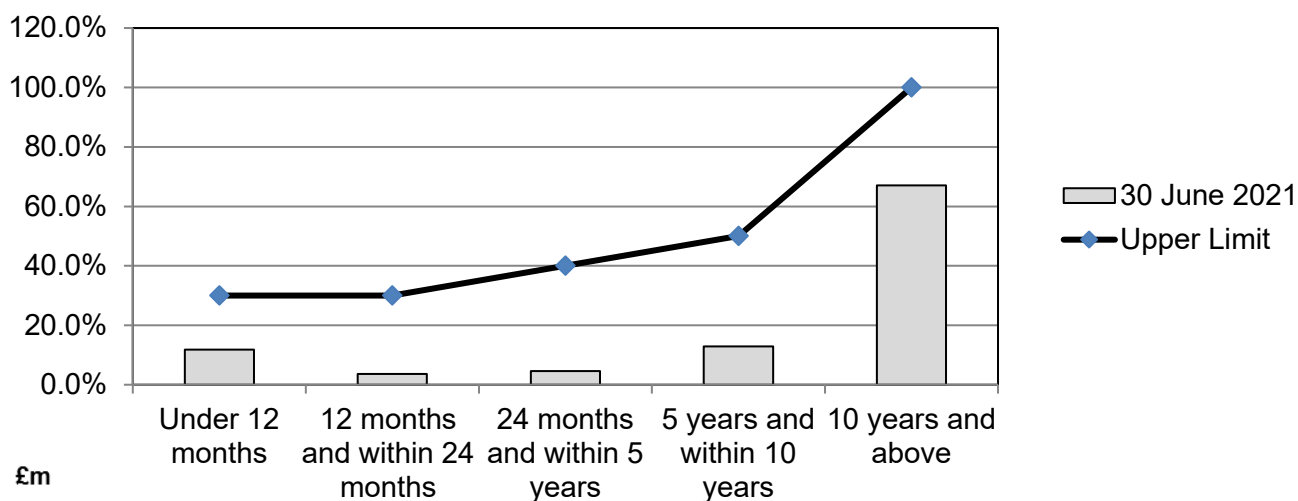
### Treasury Management - Prudential Indicators

The Council has complied with all the prudential limits set in the TMSS 2021/22.

#### External Debt

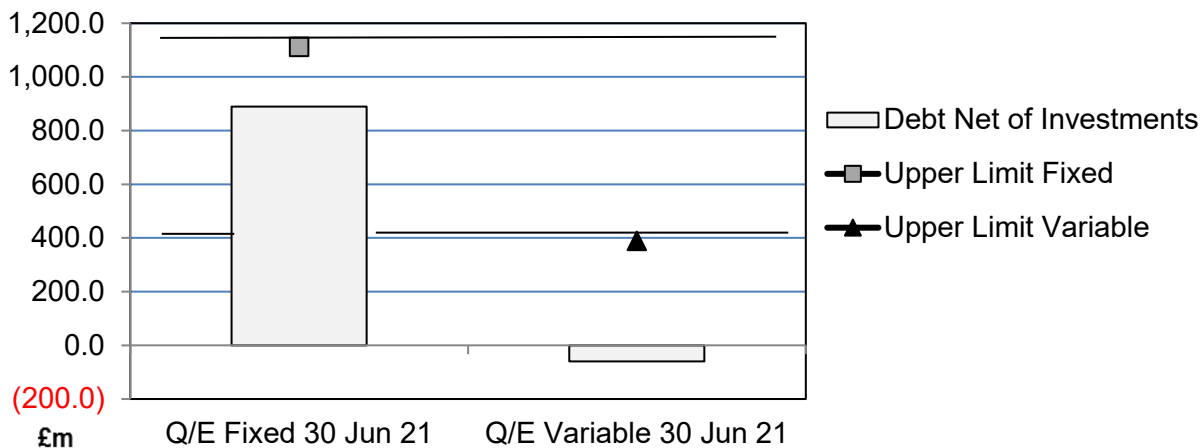


#### Maturity Structure of Fixed Rate Borrowing



#### 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 June 2021.

<b>Counterparty</b>	<b>Total amount £m</b>	<b>Counter party limit £m</b>	<b>Link credit rating Jun 21</b>	<b>Amount £m</b>	<b>Deposit Type</b>	<b>Rate Jun 21 %</b>	<b>Duration</b>
Clydesdale Bank	8.4	20.0	Green 100 Days	8.4	Call	0.10	N/A
Insight Investments MMF	13.9	20.0	AAA rated	13.9	Call	0.00	N/A
Northern Trust MMF	14.6	20.0	AAA rated	14.6	Call	0.01	N/A
Aberdeen Liquidity MMF	20.0	20.0	AAA rated	20.0	Call	0.01	N/A
BlackRock ICS MMF	20.0	20.0	AAA rated	20.0	Call	0.005	N/A
Santander	20.0	20.0	Red 6 months	20.0	95 DN	0.40	N/A
<b>Total Deposits</b>	<b>96.9</b>			<b>96.9</b>			