

Agenda Item	10.a
Report No	RES/40/21

HIGHLAND COUNCIL

Committee: Corporate Resources Committee

Date: 24 November 2021

Report Title: Treasury Management – Summary of Transactions
Quarter ended 30 September 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 July to 30 September 2021.

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

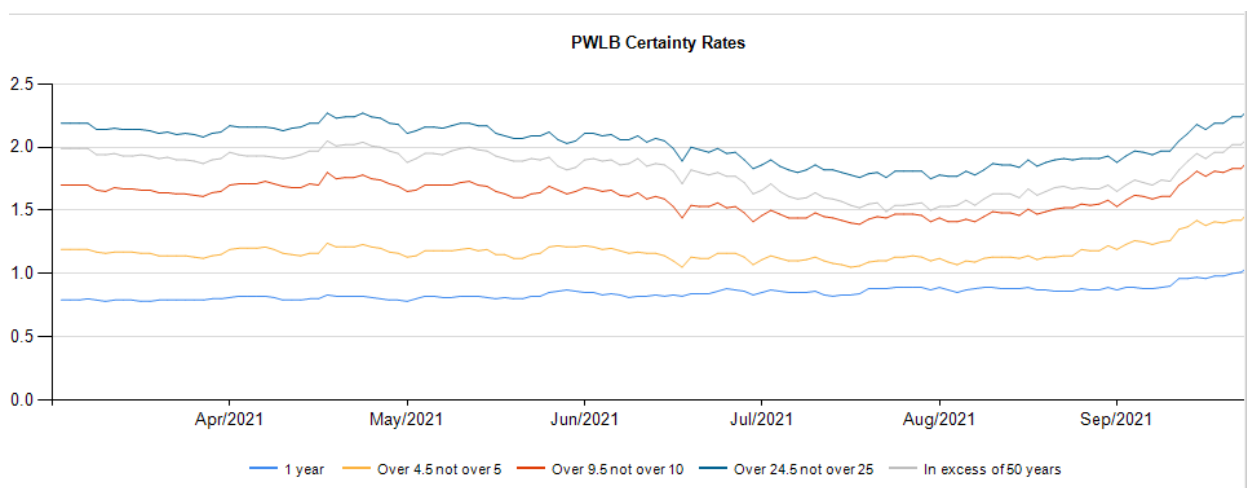
- 4.1 The strategy set in February 2021 was that during 2021/22 the plan is to continue to use short-term borrowing to fund the capital programme but consider long-term borrowing to replace maturities in order to manage refinancing risks.

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.

5. Borrowing undertaken and repayments made

- 5.1 There was temporary borrowing of £15.0m undertaken in the period July to September 2021 and £36.0m of temporary loans were repaid. At 30 September 2021, the total temporary loans balance was £77.0m with an average rate of 0.20% (£98.0m at 30 June 2021, average rate 0.24%).

- 5.2 At 30 September 2021, the total of Public Works Loan Board (PWLB) loans was £699.2m (£703.7 at 30 June 21) with repayments totalling £4.5m made during the quarter. Long term Market loans totalled £124.8m (£124.8m at 30 June 2021).



- 5.3 During September 2021 the following PWLB Loans were repaid;

- £1,000,000 start date 25/03/93, 28 years at a rate of 9.375%
- £1,300,000 start date 26/03/15, 6 years at a rate of 2.09%
- £1,300,000 start date 28/05/15, 6 years at a rate of 2.36%
- £928,000 start date 08/07/15, 6 years at a rate of 2.46%

PWLB rates for the year to 30 September 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 at zero or above.
- 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 95 Day Notice deposit of £20m remains with Santander at 0.40% locking in some cash flow certainty and taking 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 A full list of all counterparties at 30 September 2021 is at **Appendix 3**
- 6.4 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.
- 6.5 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: 10th November 2021

Author: Edward Foster, Head of Corporate Finance & Commercialism

Background Papers:

https://www.highland.gov.uk/download/meetings/id/78595/9a_summary_of_transactions_quarter_ended_30_june_2021

Appendix 1

Treasury Management - Summary of Transactions for the Quarter to 30 September 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 Jul 21 %	30 Sep 21 %
Public Works Loan Board	703.7	0	(4.5)	699.2	4.17	4.17
Market Loans	88.3	0	0	88.3	4.33	4.33
LOBO Market Loans	36.5	0	0	36.5	4.58	4.58
Temporary Loans (term less than 1 year)	98.0	15.0	(36.0)	77.0	0.24	0.20
Bank Balance	0	0	0	0		
GROSS EXTERNAL BORROWING	926.5	15.0	(40.5)	901.0		
<i>Temporary Deposits</i>	<i>(96.9)</i>	<i>(168.9)</i>	189.7	<i>(76.1)</i>	0.10	0.10
NET EXTERNAL BORROWING	829.6	(153.9)	149.2	824.9		
Total loan average					3.78	3.86

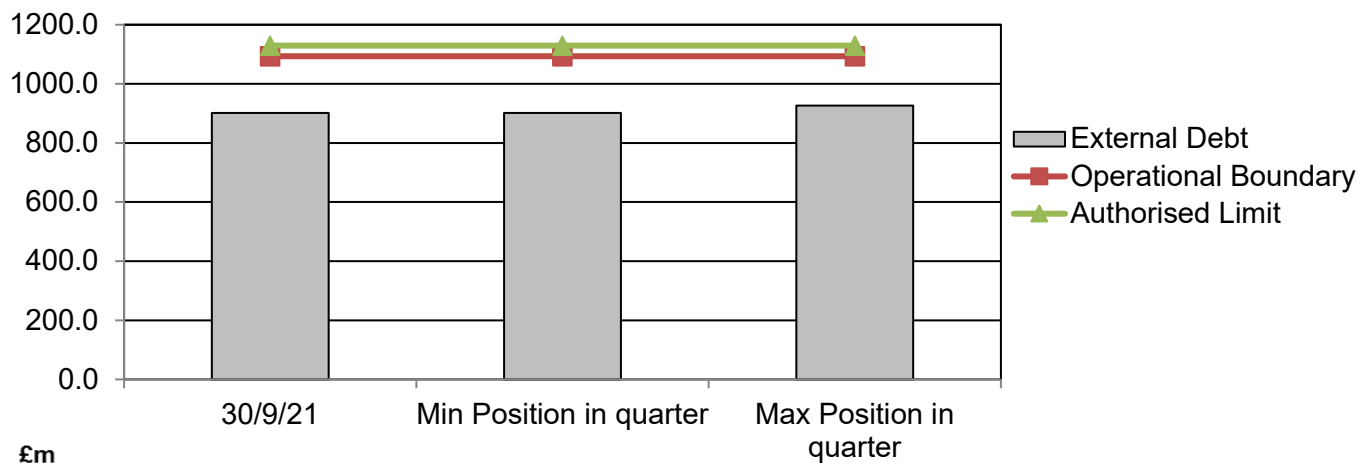
<u>Borrowing / Lending internal parameters as per approved Treasury Management Practices</u>	<u>Actual</u> %	<u>Approved Max</u> %
Short term borrowing as % of the Council's total outstanding debt	8.5	25.0
Borrowing at variable rates of interest as % of the Council's total outstanding loan debt	4.1	35.0

Appendix 2

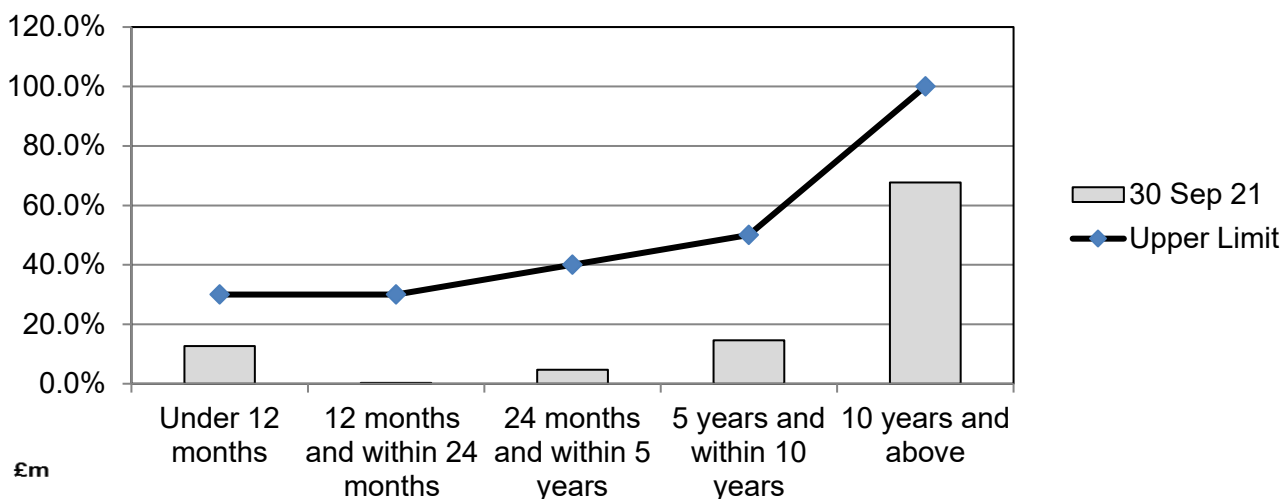
Treasury Management - Prudential Indicators

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

External Debt

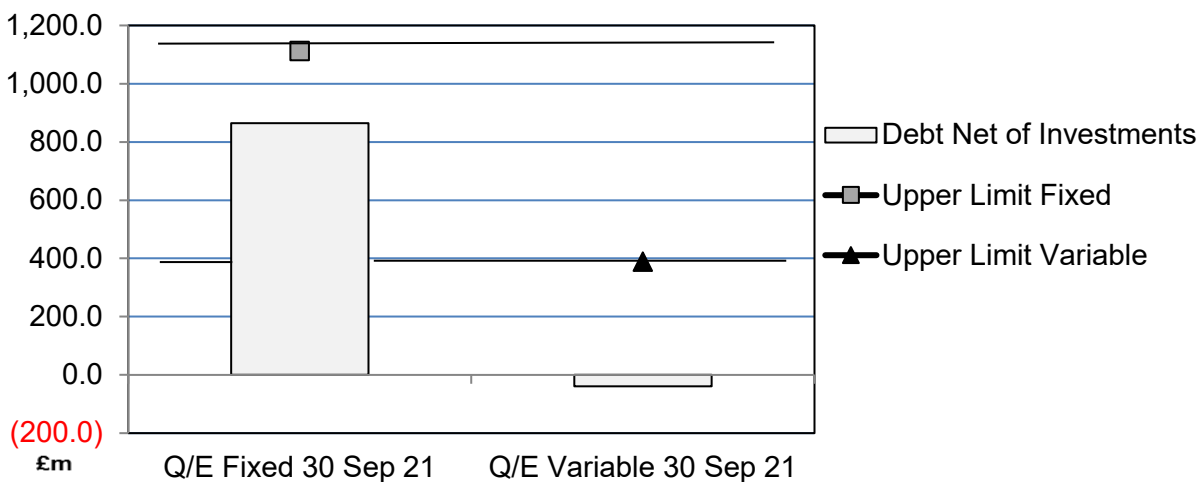


Maturity Structure of Fixed Rate Borrowing



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 Sep 2021.

Counterparty	Total amount £m	Counter party limit £m	Link credit rating Jun 21	Amount £m	Deposit Type	Rate Jun 21 %	Duration
Clydesdale Bank	15.9	20.0	Green 100 Days	15.9	Call	0.10	N/A
Insight Investments MMF	0.1	20.0	AAA rated	0.1	Call	0.00	N/A
Northern Trust MMF	20.0	20.0	AAA rated	20.0	Call	0.01	N/A
Aberdeen Liquidity MMF	20.0	20.0	AAA rated	20.0	Call	0.01	N/A
BlackRock ICS MMF	0.1	20.0	AAA rated	0.1	Call	0.005	N/A
Santander	20.0	20.0	Red 6 months	20.0	95 DN	0.40	N/A
Total Deposits	76.1			76.1			