

Agenda Item	7a.
Report No	RES/05/22

HIGHLAND COUNCIL

Committee: Corporate Resources Committee

Date: 26 January 2022

Report Title: Treasury Management – Summary of Transactions
Quarter ended 31 December 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 October to 31 December 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

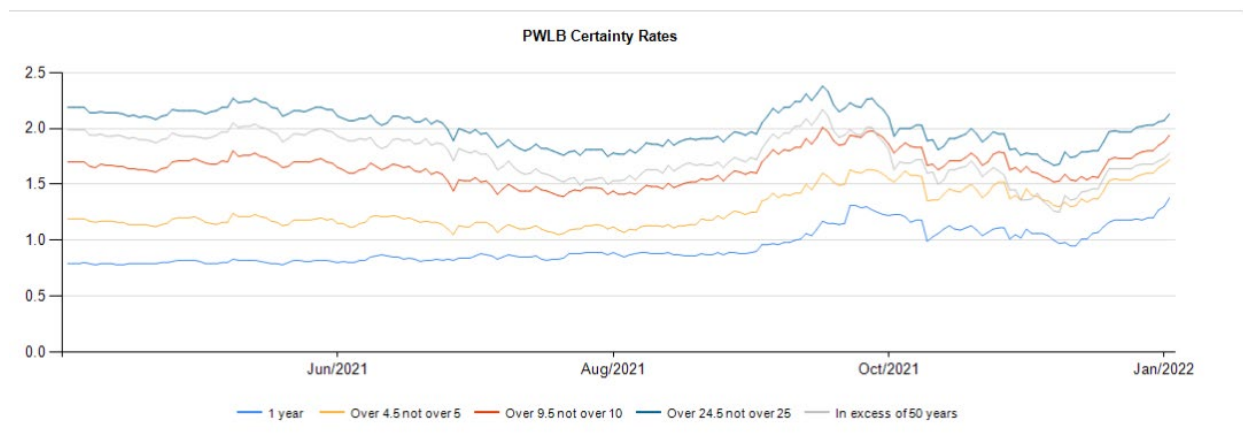
- 4.1 The strategy set in February 2021 was that during 2021/22 the plan is to continue to use short-term borrowing to fund the capital programme but consider long-term borrowing to replace maturities to manage refinancing risks.

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 On 16 December 2021 The Bank of England, at their Monetary Policy Committee (MPC) meeting raised Bank Rate from 0.10% (set at 09 March 2020) to 0.25%. This increase has had an immediate impact on quoted temporary borrowing rates.

5. Borrowing undertaken and repayments made

- 5.1 There was temporary borrowing of £52.0m undertaken in the period 01 October to 31 December 2021 and £35.0m of temporary loans were repaid. At 31 December 2021, the total temporary loans balance was £94.0m with an average rate of 0.14% (£77.0m at 30 September 2021, average rate 0.20%).
- 5.2 At 31 December 2021, the total of Public Works Loan Board (PWLB) loans was £794.2m (£699.2m at 30 September 21). Long term Market loans totalled £124.8m (£124.8m at 30 September 2021).



- 5.3 PWLB rates for the year to 31 December 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)

During the quarter ended 31 December 2021 the following PWLB Loans were taken;

- £25,000,000 start date 04/11/21, 50 years at a rate of 1.63%
- £10,000,000 start date 16/11/21, 50 years at a rate of 1.51%

- £10,000,000 start date 03/12/21, 50 years at a rate of 1.46%
- £25,000,000 start date 08/12/21, 40 years at a rate of 1.49%
- £25,000,000 start date 08/12/21, 50 years at a rate of 1.35%

Total taken in 2021/22 is £100m (including loan below)

- £5,000,000 start date 25/06/21, 50 years at a rate of 1.91%

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 first part of the period MMF yields remained low with MMF providers adjusting their fees so that net yields remained at zero or above. Due to the Bank Rate increase and towards the end of the period rates achieved on Money Market Fund (MMF) investments have begun to rise.
- 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% (reverting to 0.20% once notice to mature is served) 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 31 December 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.
- 6.6 On 06 Dec 2021 the Executive Chief Officer, Resources and Finance authorised a temporary increase in the MMF counterparty limit from £20m to £30m, this was to accommodate PWLB funds received during December. It is anticipated that the limit will revert to £20m by the end of January 22 as funds are used for cash flow purposes.

Designation: Executive Chief Officer, Resources and Finance

Date: 18 December 2022

Author: Edward Foster, Head of Corporate Finance & Commercialism

Background Papers:

https://www.highland.gov.uk/download/meetings/id/79128/10a_treasury_management_-_summary_of_transactions

Appendix 1

Treasury Management - Summary of Transactions for the Quarter to 31 December 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	
					30 Sep 21 %	31 Dec 21 %
Public Works Loan Board	699.2	95.0	0	794.2	4.17	3.84
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)	77.0	52.0	(35.0)	94.0	0.20	0.14
Bank Balance	0	0	0	0		
GROSS EXTERNAL BORROWING	901.0	147.0	(35.0)	1,013.0		
<i>Temporary Deposits</i>	<i>(76.1)</i>	<i>(218.0)</i>	166.5	<i>(127.6)</i>	0.10	0.12
NET EXTERNAL BORROWING	824.9	(71.0)	131.5	885.4		
Total loan average					3.86	3.57

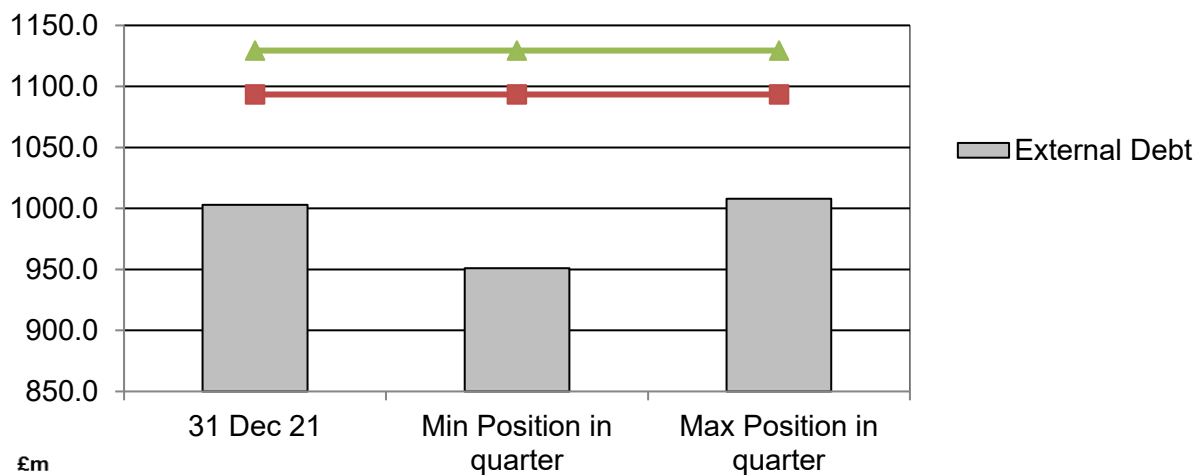
<u>Borrowing / Lending internal parameters as per approved Treasury Management Practices</u>	<u>Actual</u> %	<u>Approved Max</u> %
Short term borrowing as % of the Council's total outstanding debt	9.3	25.0
Borrowing at variable rates of interest as % of the Council's total outstanding loan debt	3.6	35.0

Appendix 2

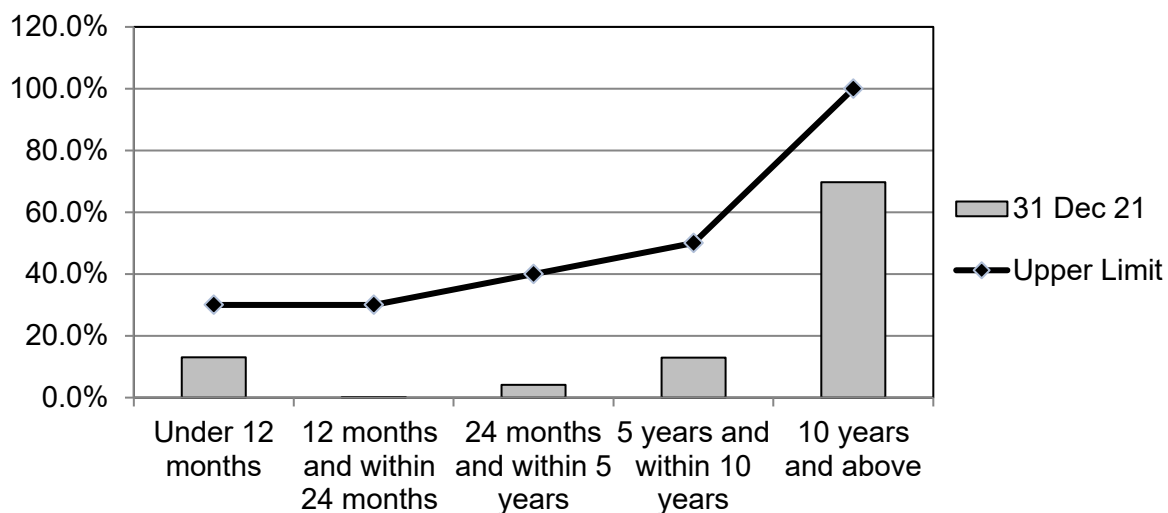
Treasury Management - Prudential Indicators

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

External Debt

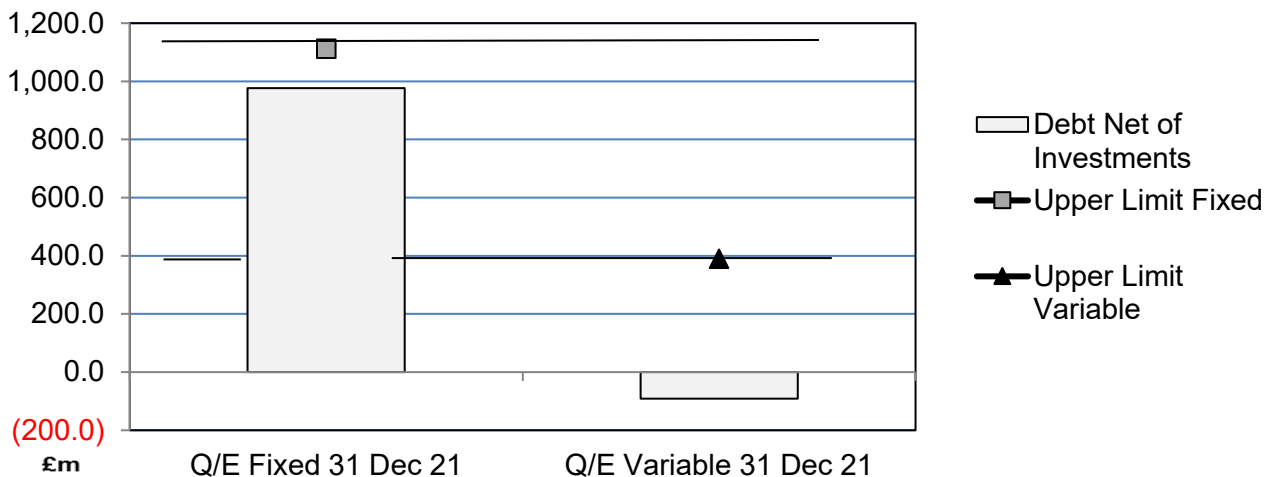


Maturity Structure of Fixed Rate Borrowing



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 31 Dec 2021.

Counterparty	Total amount £m	Counter party limit £m	Link credit rating Dec 21	Amount £m	Deposit Type	Rate Dec 21 %	Duration
Clydesdale Bank	18.9	20.0	Green 100 Days	18.9	Call	0.25	N/A
Insight Investments MMF	30.0	30.0**	AAA rated	30.0	Call	0.04	N/A
Northern Trust MMF	20.0	30.0**	AAA rated	20.0	Call	0.01	N/A
Aberdeen Liquidity MMF	30.0	30.0**	AAA rated	30.0	Call	0.05	N/A
BlackRock ICS MMF	8.7	30.0**	AAA rated	8.7	Call	0.00	N/A
Santander	20.0	20.0	Red 6 months	20.0	95 DN	0.20*	N/A
Total Deposits	127.6			127.6			

*rate on this account is 0.40% but once notice is given to mature it reverts to 0.20%

**temporary increase from £20m to £30m