

Agenda Item	11.a
Report No	RES/22/22

HIGHLAND COUNCIL

Committee: Corporate Resources Committee

Date: 08 September 2022

Report Title: Treasury Management – Summary of Transactions
Quarters ended 31 March 2022 and 30 June 2022

Report By: Head of Corporate Finance, 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 **Appendices 1 and 2**), 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 3 and 4**).

2. Recommendations

- 2.1 Members are asked to consider the Treasury Management Summary of Transactions reports for the periods from 1 January to 31 March 2022 and 1 April to 30 June 2022.

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)

- 4.1 The strategy set in February 2021 was that during financial year 2021/22 (report for quarter ending March 2022) 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. This will continue to be the plan as set out in the strategy in January 2022 which applies to financial year 2022/23 (report for quarter ending June 2022).

Considering the risks within the economic forecast, caution will be adopted with 2022/23 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 Since the increase in the bank rate on 16 December 2021 to 0.25%, the MPC has voted in favour of further Bank Rate increases to try to curb inflation, as follows:
- 3 March 2022 to 0.50%
 - 17 March 2022 to 0.75%
 - 5 May 2022 to 1.00%
 - 16 June 2022 to 1.25%
 - 4 August 2022 to 1.75%

This has meant temporary borrowing rates and deposit interest rates have been gradually increasing.

5. Borrowing undertaken and repayments made

- 5.1 For the quarter ending 31 March 2022, there was temporary borrowing of £40.0m undertaken and £22.0m of temporary loans were repaid. As at 31 March 2022, the total temporary loans balance was £112.0m with an average rate of 0.45% (£94.0m at 31 December 2021, average rate 0.14%).

The remaining short-term borrowing for financial year 2021/22 was taken during the last week of February/first week of March before the end of the financial year due to the possibility of another bank rate rise and uncertainty created by the escalating geopolitical situation in the Ukraine.

- 5.2 For the quarter ending 30 June 2022, there was no temporary borrowing undertaken in and £16.0m of temporary loans were repaid. As at 30 June 2022 the total temporary loans balance was £96.0m with an average rate of 0.51% (£112.0m at 31 March 22, average rate 0.45%)

5.3 As at 30 June 2022, the total of Public Works Loan Board (PWLB) loans was £791.4m (£794.2m at 31 December 21) and long term Market loans totalled £124.8m (£124.8m at 31 December 2021).

The following PWLB repayments were made during the period from 1 January 2022 to 30 June 2022 and there was no new PWLB borrowing undertaken.

Ref	Start Date	Maturity Date	Amount £	Rate %
P504313	17/08/2015	31/03/2022	700,000.00	2.47
P504373	14/09/2015	31/03/2022	750,000.00	2.36
P504530	08/12/2015	31/03/2022	1,350,000.00	2.31
Total			2,800,000.00	

5.3 PWLB rates for the financial years 2021/22 and 2022/23 to 26 August 2022 are shown in the graph below. 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 (1.0%) (G+100bps)
- PWLB Certainty Rate is gilt plus 80 basis points (0.8%)(G+80bps)
- PWLB HRA Standard Rate is gilt plus 100 basis points (1.0%)(G+100bps)
- PWLB HRA Certainty Rate is gilt plus 80bps (0.8%)(G+80bps)
- Local Infrastructure Rate is gilt plus 60bps (0.6%)(G+60bps)



6. Deposits

6.1 Cash flow, uncertainty, and the need to maintain liquidity, has meant the Council has held the majority of cash balances in Money Market Funds (MMFs). Due to the Bank Rate increases, rates on Money Market Fund (MMF) investments have increased and continue to do so.

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. The 95 Day Notice deposit of £20m with Santander at 0.40% (reverted to 0.20% once notice to mature was served) was repaid on 18 February 2022 to help cover a large cash commitment. On 23 March 22, a 35 Day notice deposit of £20m was placed with Santander to cover future cashflows and take advantage of a preferential rate (0.89% which will revert to 0.69% once notice to mature is served).

- 6.3 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.
- 6.4 A full list of all counterparties as at 30 June 2022 is at **Appendix 5**
- 6.5 When placing temporary deposits, the Council uses a weekly credit rating list provided by the Link Group, to assess the risks involved in lending to individual counterparties. The Council's lending policy is continually monitored against these credit ratings. This provides 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 2021/22 which was approved at Council on 25 February 2021 and the TMSS for 2022/23 was approved at Corporate Resources Committee on 26 January 2022.
- 6.7 On 6 December 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 was anticipated that the limit would revert to £20m by the end of January 2022 as funds were used for cash flow purposes. By 21 January 2022 all funds were £20m or below and the £20m MMF counterparty limit was reinstated on 26 January 22.

Designation: Head of Corporate Finance

Date: 29 August 2022

Author: Edward Foster, Head of Corporate Finance

Background Papers:

https://www.highland.gov.uk/download/meetings/id/79434/7a_treasury_management_-_summary_of_transactions

Appendix 1

Treasury Management - Summary of Transactions for the Quarter to 31 March 2022

Type of Borrowing	Outstanding debt at start of quarter £m	Raised £m	Repaid £m	Outstanding debt at end of quarter £m	Average Interest Rate	
					31 Dec 21 %	31 Mar 21 %
Public Works Loan Board	794.2	0	(2.8)	791.4	3.84	3.85
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)	94.0	40.0	(22.0)	112.0	0.14	0.45
Bank Balance	0	0	0	0		
GROSS EXTERNAL BORROWING	1,013.0	40.0	(24.8)	1,028.2		
<i>Temporary Deposits</i>	<i>(127.6)</i>	<i>(175.9)</i>	207.5	<i>(96.0)</i>	0.12	0.59
NET EXTERNAL BORROWING	885.4	(135.9)	182.7	932.2		
Total loan average					3.57	3.55

<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	10.9	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 - Summary of Transactions for the Quarter to 30 June 2022

Type of Borrowing	Outstanding debt at start of quarter £m	Raised £m	Repaid £m	Outstanding debt at end of quarter £m	Average Interest Rate	
					31 Mar 21 %	30 Jun 21 %
Public Works Loan Board	791.4	0	0	791.4	3.85	3.85
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)	112.0	0	(16.0)	96.0	0.45	0.51
Bank Balance	0	0	0	0		
GROSS EXTERNAL BORROWING	1,028.2	0	(16.0)	1,012.2		
<i>Temporary Deposits</i>	<i>(96.0)</i>	<i>(228.2)</i>	221.1	<i>(103.1)</i>	0.59	1.08
NET EXTERNAL BORROWING	932.2	(228.2)	205.1	909.1		
Total loan average					3.55	3.60

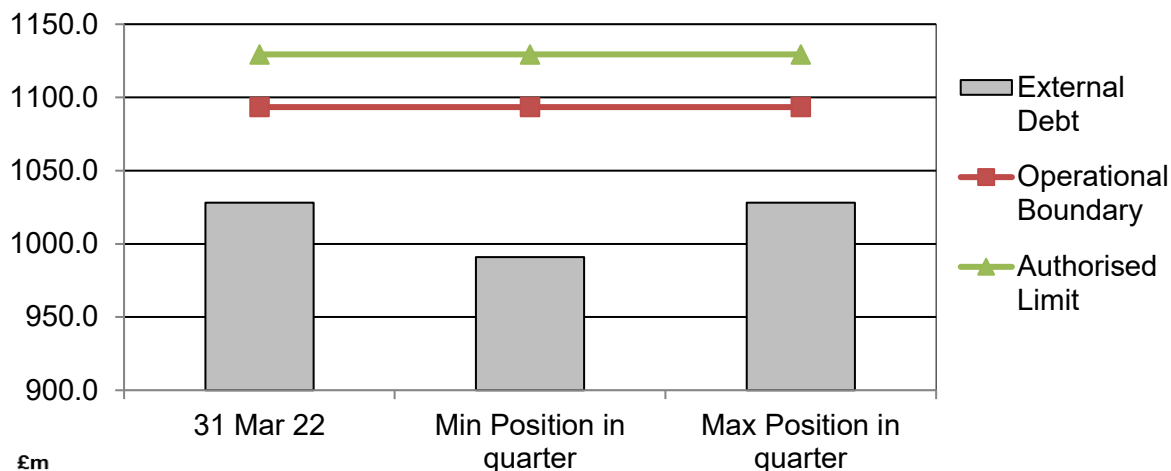
<u>Borrowing / Lending internal parameters as per approved Treasury Management Practices</u>	<u>Actual</u> %	<u>Approved Max</u> %
Short term borrowing as % of the Council's total outstanding debt	9.5	25.0
Borrowing at variable rates of interest as % of the Council's total outstanding loan debt	3.6	35.0

Appendix 3

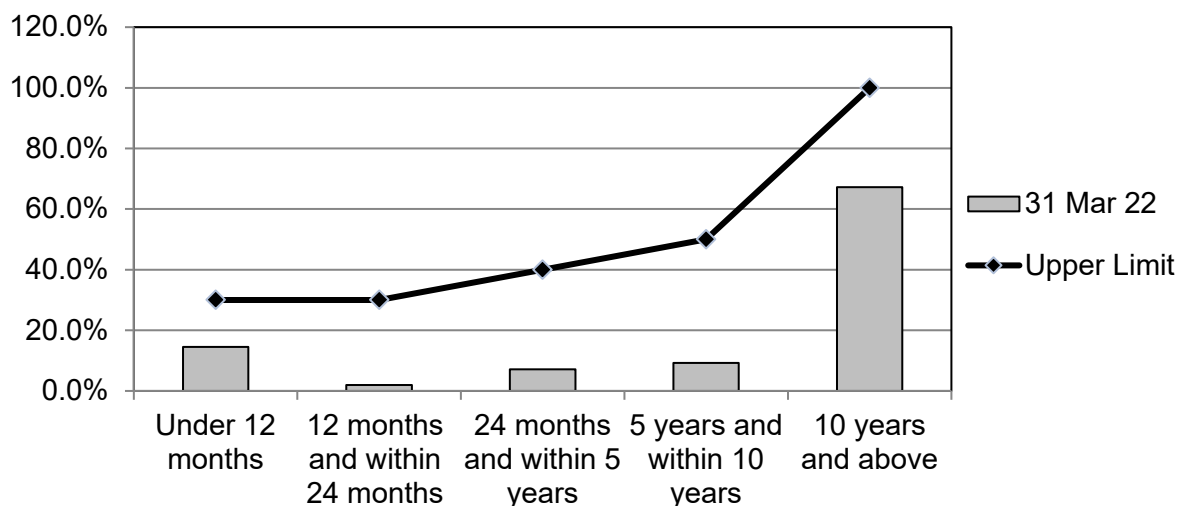
Treasury Management - Prudential Indicators

The Council has complied with all the prudential limits set in the TMSS 2021/22 during the quarter to 31 March 2022.

External Debt

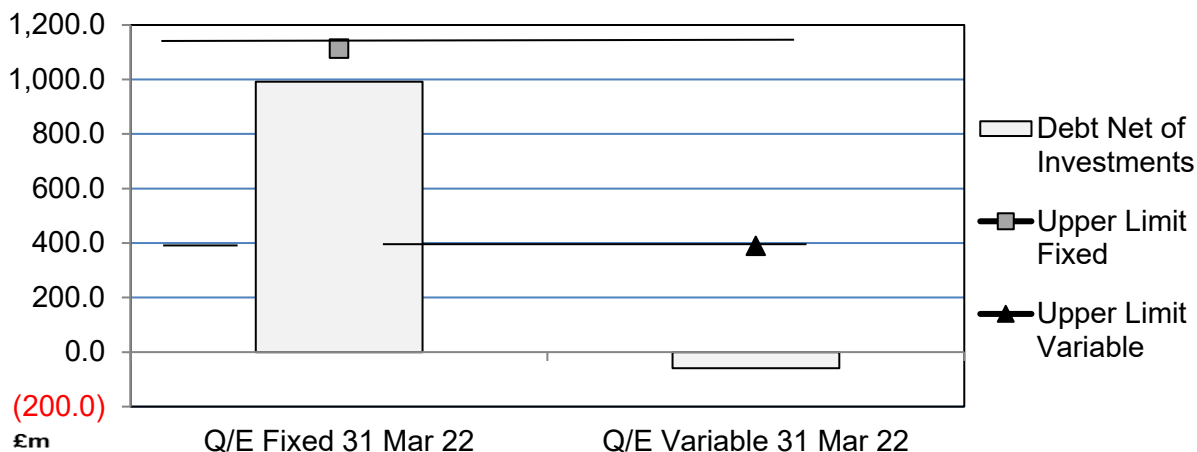


Maturity Structure of Fixed Rate Borrowing



Debt Net of Investments

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

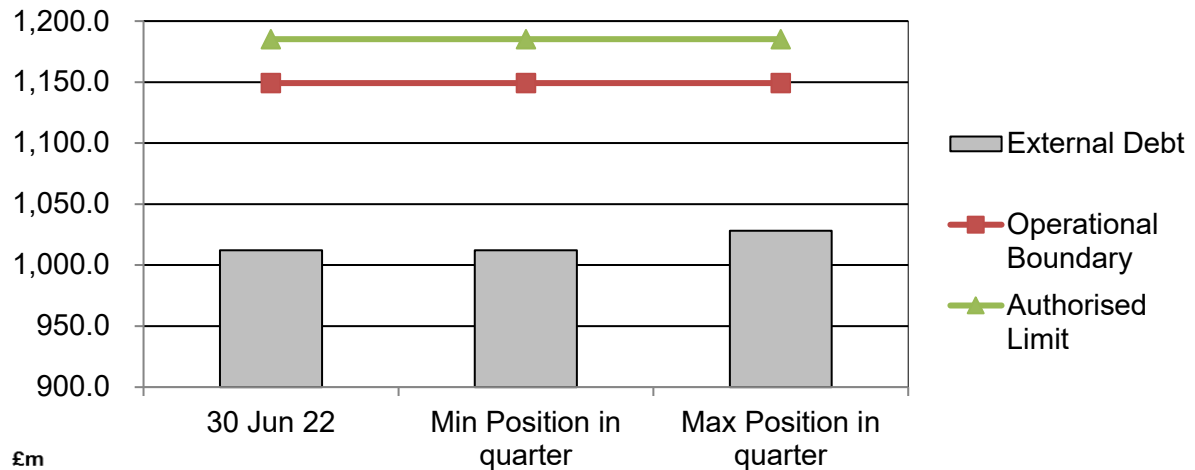


Appendix 4

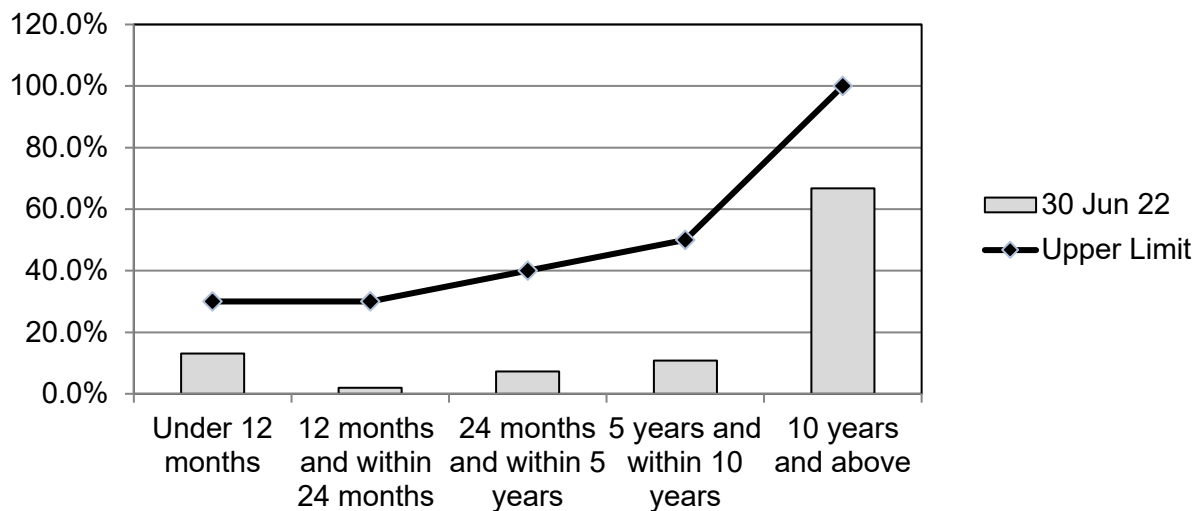
Treasury Management - Prudential Indicators

The Council has complied with all the prudential limits set in the TMSS 2022/23 during the quarter to 30 June 2022.

External Debt

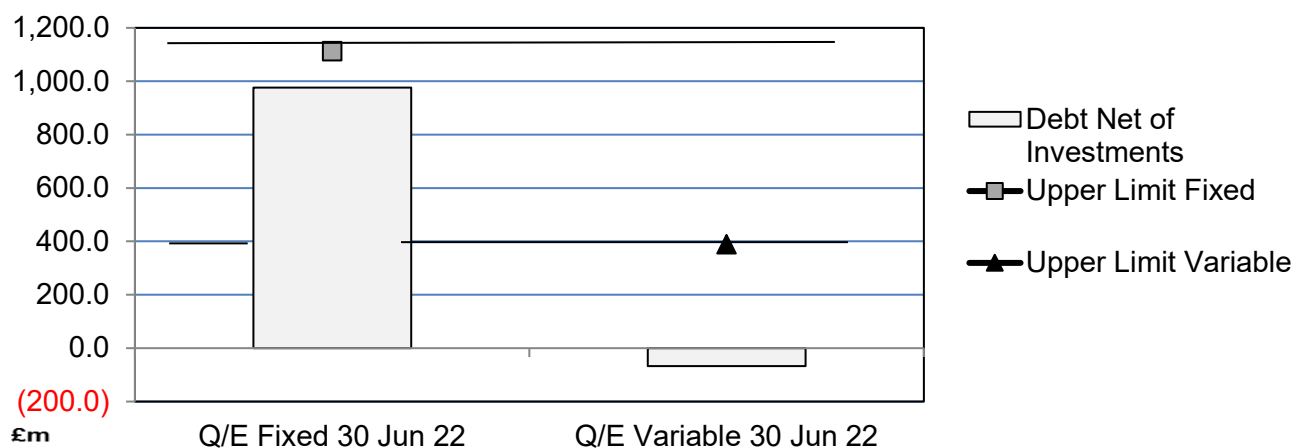


Maturity Structure of Fixed Rate Borrowing



Debt Net of Investments

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



Appendix 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 2022.

Counterparty	Total amount £m	Counter party limit £m	Link credit rating Jun 22	Amount £m	Deposit Type	Rate Jun 22 %	Duration
Clydesdale Bank	19.5**	20.0	Green 100 Days	19.7	Call	1.25	N/A
	0.2				CMA	1.25	
Insight Investments MMF	12.6	20.0	AAA rated	12.6	Call	1.10	N/A
Northern Trust MMF	12.0	20.0	AAA rated	12.0	Call	1.09	N/A
Aberdeen Liquidity MMF	18.8	20.0	AAA rated	18.8	Call	1.08	N/A
BlackRock ICS MMF	20.0	20.0	AAA rated	20.0	Call	1.09	N/A
Santander	20.0	20.0	Red 6 months	20.0	35 DN	0.89*	N/A
Total Deposits	103.1			103.1			

* rate on this account is 0.89% but once notice is given to mature a reversion rate applies (less 0.20%)

** includes overnight deposit in Clydesdale Cash Management Account