

Agenda Item	<b>11.a</b>
Report No	<b>RES/34/22</b>

## HIGHLAND COUNCIL

**Committee:** Corporate Resources Committee

**Date:** 1 December 2022

**Report Title:** Treasury Management – Summary of Transactions  
Quarter ended 30 September 2022

**Report By:** Head of Corporate 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 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 January 2022 which applies to financial year 2022/23 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 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%
- 22 September to 2.25%
- 3 November to 3.00%

Temporary borrowing rates and deposit interest rates had been gradually increasing and by mid-September, and after the Bank Rate increase, began to rise more sharply with lenders more reluctant to come to the Market.

#### 5. Borrowing undertaken and repayments made

5.1 There is continuing market uncertainty influenced by domestic factors and by the ongoing geopolitical situation in Ukraine. Bank rate is currently at 3.00% and analysts currently predict Bank Rate peaking at around 5.5% in May of 2023.

5.2 For the quarter ending 30 September 2022 there was £20.0m of new temporary borrowing undertaken and £37.0m of temporary loans were repaid. As at 30 September 2022 the total temporary loans balance was £79.0m with an average rate of 0.98% (£96.0m at 30 June 22, average rate 0.51%).

5.3 As at 30 September 2022, the total of Public Works Loan Board (PWLB) loans was £781.5m (£791.4m at 30 June 22) and long term Market loans totalled £124.8m (£124.8m at 30 June 2022).

The following PWLB repayments were made during the period from 1 July 2022 to 30 September 2022. There was no new PWLB borrowing undertaken.

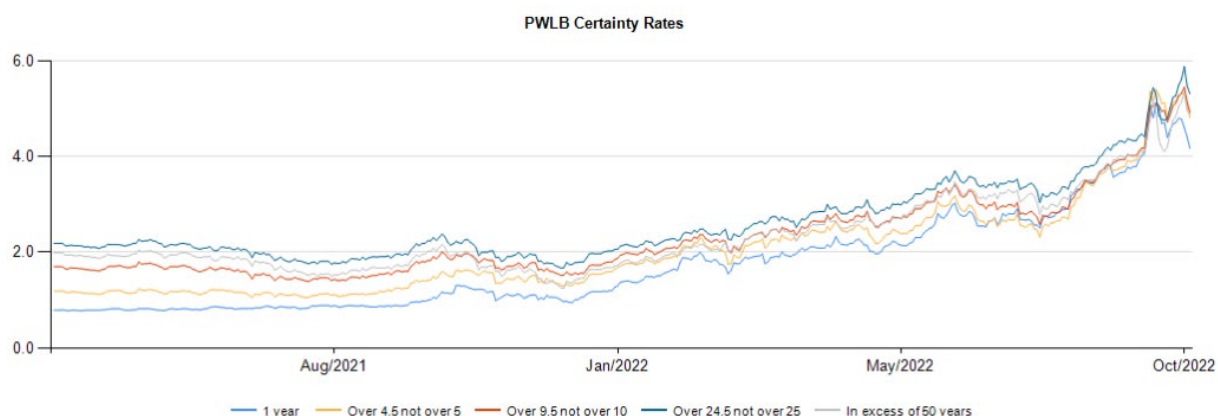
Ref	Start Date	Maturity Date	Amount £	Rate
P498767	14/07/2011	30/09/2022	15,000,000.00	4.35%
P479600	24/06/1997	30/09/2022	13,800,000.00	7.125%
P450549	18/10/1982	30/09/2022	1,053,479.77	10.5%
<b>Total</b>			<b>29,853,479.77</b>	

The following PWLB borrowing was undertaken before rates began to increase steadily. The rates for the same PWLB borrowing increased to 4.01% the next business day.

P552574	26/09/2022	30/09/2026	20,000,000.00	3.89%
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5.4 The PWLB rates for the financial years 2021/22 and 2022/23 to 14 October 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. On 23 March 2022 a 35 Day notice deposit of £20.0m was placed with Santander to cover future cashflows and take advantage of a preferential rate, notice was subsequently served and this loan matured on 30 September 2022 to help cover £44.9m of PWLB loan maturities and interest.
- 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 September 2022 is at **Appendix 3**.
- 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 2022/23 which was approved Corporate Resources Committee on 26 January 2022

Designation: Head of Corporate Finance

Date: 21 November 2022

Author: Edward Foster, Head of Corporate Finance

Background Papers:

[https://www.highland.gov.uk/download/meetings/id/80430/11a\\_treasury\\_management\\_-\\_summary\\_of\\_transactions](https://www.highland.gov.uk/download/meetings/id/80430/11a_treasury_management_-_summary_of_transactions)

## Appendix 1

### Treasury Management - Summary of Transactions for the Quarter to 30 September 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	
					30 Jun 22 %	30 Sep 22 %
Public Works Loan Board	791.4	20.0	(29.9)	781.5	3.85	3.78
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)	96.0	20.0	(37.0)	79.0	0.51	0.98
Bank Balance	0	0	0	0		
<b>GROSS EXTERNAL BORROWING</b>	<b>1,012.2</b>	<b>40.0</b>	<b>(66.9)</b>	<b>985.3</b>		
<i>Temporary Deposits</i>	<i>(103.1)</i>	<i>(191.0)</i>	217.3	<i>(76.8)</i>	1.08	2.08
<b>NET EXTERNAL BORROWING</b>	<b>909.1</b>	<b>(151.0)</b>	150.4	<b>908.5</b>		
Total loan average					3.60	3.63

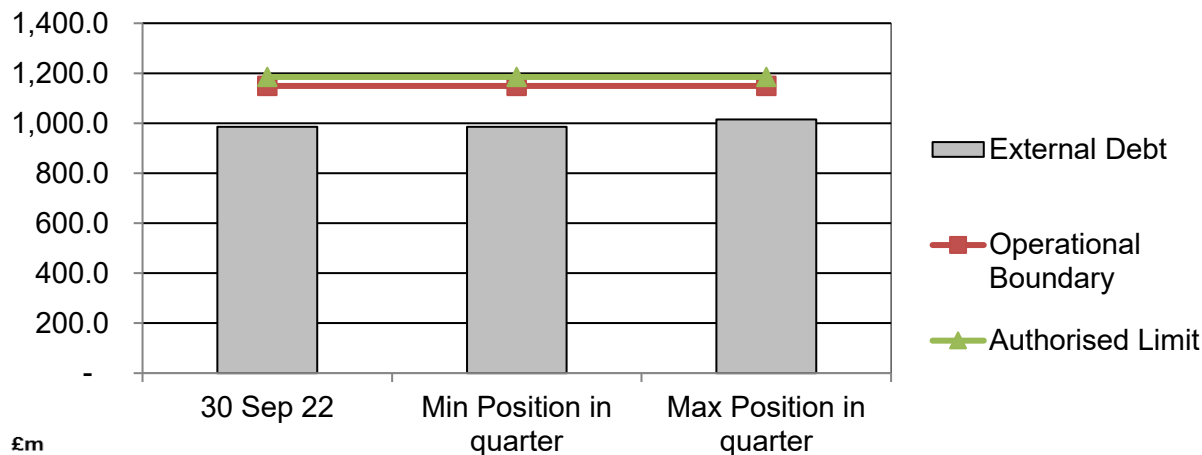
<b><u>Borrowing / Lending internal parameters as per approved Treasury Management Practices</u></b>	<b><u>Actual</u></b> %	<b><u>Approved Max</u></b> %
Short term borrowing as % of the Council's total outstanding debt	8.0	25.0
Borrowing at variable rates of interest as % of the Council's total outstanding loan debt	3.7	35.0

## Appendix 2

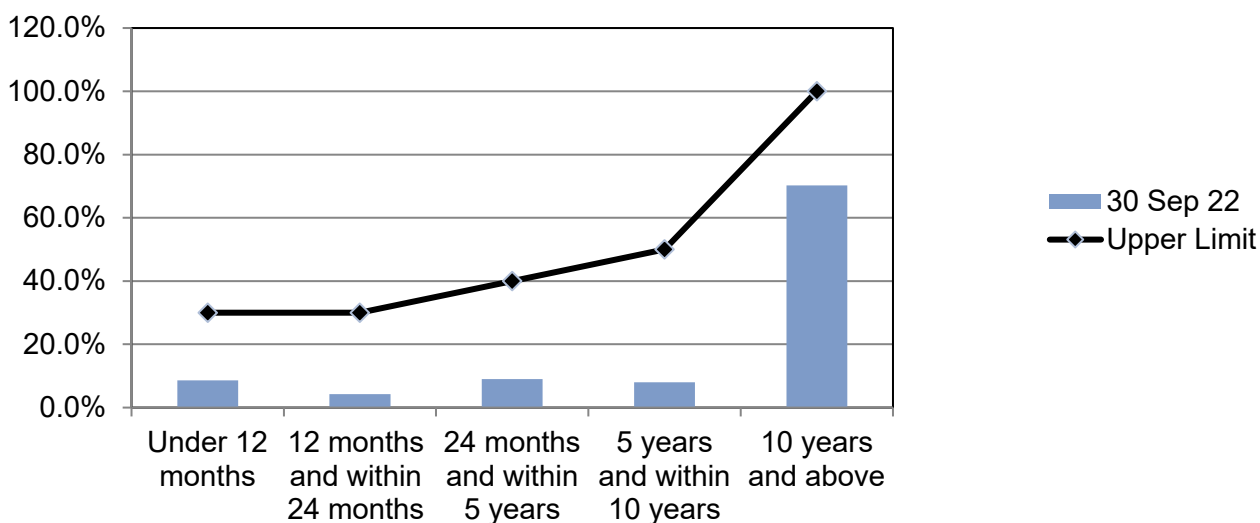
### Treasury Management - Prudential Indicators

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

#### External Debt

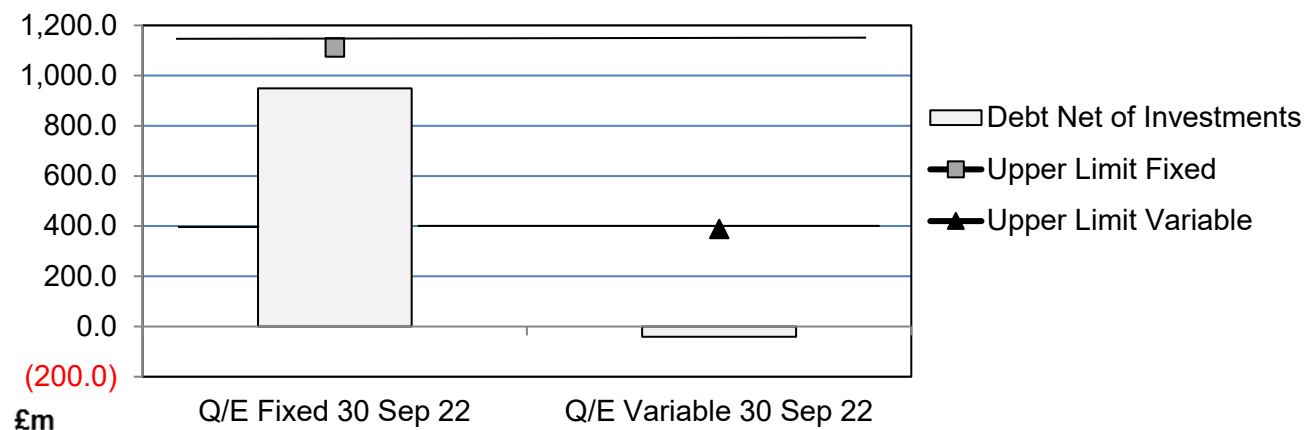


#### Maturity Structure of Fixed Rate Borrowing



#### Debt Net of Investments

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



### Appendix 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 2022.

Counterparty	Total amount £m	Counter party limit £m	Link credit rating Sep 22	Amount £m	Deposit Type	Rate Sep 22 %	Duration
Clydesdale Bank	8.8**	20.0	Green 100 Days	9.0	Call	2.25	N/A
	0.2				CMA	2.25	
Insight Investments MMF	20.0	20.0	AAA rated	20.0	Call	2.05	N/A
Northern Trust MMF	20.0	20.0	AAA rated	20.0	Call	2.04	N/A
Aberdeen Liquidity MMF	20.0	20.0	AAA rated	20.0	Call	2.10	N/A
BlackRock ICS MMF	7.8	20.0	AAA rated	7.8	Call	2.01	N/A
<b>Total Deposits</b>	<b>76.8</b>			<b>76.8</b>			

\*\* includes overnight deposit in Clydesdale Cash Management Account