

Agenda Item	6.
Report No	RES/13/23

HIGHLAND COUNCIL

Committee: Corporate Resources Committee

Date: 8 June 2023

Report Title: Treasury Management – Summary of Transactions
Quarter ended 31 March 2023

Report By: Head of 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 January 2023 to 31 March 2023.

3. Implications

- 3.1 Resource and Risk – the policy of using short-term borrowing currently is at a lower cost than longer term borrowing, 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 agreed 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

The strategy agreed in March 2023 will apply to the financial year 2023/24 is also 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 2023/24 treasury operations. Given the status of the capital programme, the intent to review that programme during 2023, and the context as outlined in the TMSS in relation to unaffordability of the current capital programme, there may be a need for further revision to the TMSS as a result during the course of 2023. 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 Monetary Policy Committee has voted in favour of further Bank Rate increases to try to curb inflation, as follows:

- 03 March 2022 to 0.50%
- 17 March 2022 to 0.75%
- 05 May 2022 to 1.00%
- 16 June 2022 to 1.25%
- 04 August 2022 to 1.75%
- 22 September 2022 to 2.25%
- 03 November 2022 to 3.00%
- 15 December 2022 to 3.50%
- 02 February 2023 to 4.00%
- 23 March 2023 to 4.25%
- 11 May 2023 to 4.50%

Temporary borrowing rates and deposit interest rates had been gradually increasing on the back of Bank Rate increases, with lenders initially more reluctant to come to the Market. Rates have now become a bit more settled with more temporary borrowing available in the market and continue to rise in line with bank rate increases.

5. Borrowing undertaken and repayments made

- 5.1 There is continuing market uncertainty influenced by both domestic and geopolitical factors. Bank rate increased to 4.50% on 11 May 2023 and analysts currently predict this to be the peak with it remaining at this level until at least the end of September 2023.
- 5.2 For the quarter ending 31 March 2023 there was £43.0m of new temporary borrowing undertaken including a £10.0m 31 day notice variable rate loan which tracks bank rate. Temporary loans of £13.0m were repaid. As at 31 March 2023, the total temporary loans fixed balance was £128.0m with an average rate of 3.39% (£108.0m at 31 December 22, average rate 2.96%). For comparison, the equivalent average rate at 31 March 2022 was 0.45%, reflecting the significant increase in interest rates

over the past year. The total Temporary loans Variable rate balance was £10.0m with a rate of 4.25%

- 5.3 As at 31 March 2023, the total of Public Works Loan Board (PWLB) loans was £779.6m (£781.5m at 31 December 22) and long term Market loans totalled £129.8m (£124.8m at 31 December 2022).

There were two PWLB repayments made during the period from 1 January 2023 to 31 March 2023. There was no new PWLB borrowing undertaken, given the current focus on short-term borrowing while rates remain at high levels.

Lender	Start Date	Maturity Date	Principal £	Rate %
PWLB	06/06/1983	31/03/2023	700,000	10.375
PWLB	31/08/2016	31/03/2023	1,200,000	1.2100

There was one long term Market loan taken:

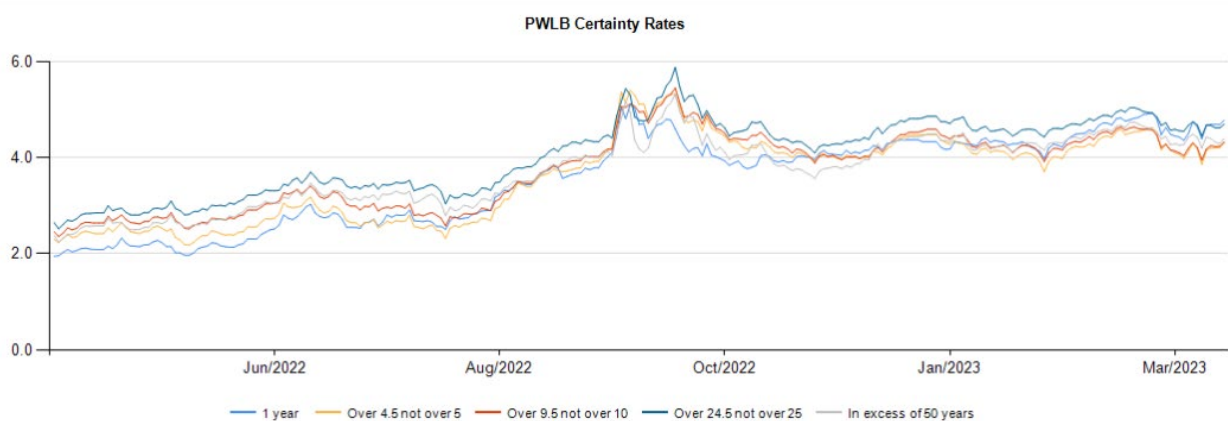
Lender	Start Date	Maturity Date	Principal £	Rate %
Torbay Council	10/03/2023	10/03/2025	5,000,000	4.20

- 5.4 For comparison, the differentials between average short-term market borrowing rate and longer-term PWLB rates, at the same point in time, were as shown below. This table highlights that at the current time, the relative financial 'saving' from temporary borrowing versus the cost of longer-term PWLB borrowing (the differential) is much lower now, than a year ago. Not only have interest rates increased over the past year, but there has been a narrowing of the differential between temporary and longer-term borrowing rates. As referred to earlier, the Council's current strategy remains avoiding longer-term borrowing, to avoid locking into longer-term high interest rates. But in doing so, the cost of temporary borrowing as an alternative, is relatively high also.

Lender	Average Temporary Loan rate %	PWLB 20y rate %	Differential %
March 2023	3.39	4.90	1.51
March 2022	0.45	2.86	2.41

- 5.5 The PWLB rates for the financial year 2022/23 to March 2023 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)
- Local Infrastructure Rate is gilt plus 60bps (0.6%)(G+60bps)



5.6 From June 2023, and arising from the UK Government Budget of March 2023, there is to be a preferential HRA certainty rate reintroduced (HRA certainty rate was previously in place from March 2020 to November 2020) which will be available for 1 year with its continuation after that period subject to review. Details of how the rate will operate are to be confirmed and will be considered as further information is received.

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), this is in line with the approach being taken by other Local Authorities. Due to Bank Rate increases, rates on Money Market Fund (MMF) investments have increased and continue to do so.
- 6.2 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 as at 31 March 2023 is at **Appendix 3**
- 6.4 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.
- 6.5 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 by Corporate Resources on 26 January 2022.

Designation: Head of Finance

Date: 11 May 2023

Author: Mairi MacCallum, Treasury Officer

Background Papers:

[https://www.highland.gov.uk/download/meetings/id/79435/7b_treasury_management - strategy statement and investment statement %E2%80%93 202223](https://www.highland.gov.uk/download/meetings/id/79435/7b_treasury_management_-_strategy_statement_and_investment_statement_%E2%80%93_202223)

[https://www.highland.gov.uk/download/meetings/id/81222/7_treasury management - summary of transactions](https://www.highland.gov.uk/download/meetings/id/81222/7_treasury_management_-_summary_of_transactions)

[https://www.highland.gov.uk/download/meetings/id/81326/15_treasury management strategy statement](https://www.highland.gov.uk/download/meetings/id/81326/15_treasury_management_strategy_statement)

Appendix 1

Treasury Management - Summary of Transactions for the Quarter to 31 March 2023

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 22 %	31 Mar 23 %
Public Works Loan Board	781.5	0	(1.9)	779.6	3.78	3.78
Market Loans	88.3	5.0	0	93.3	4.33	4.37
LOBO Market Loans	36.5	0	0	36.5	4.58	4.58
Fixed Temporary Loans (term < 1 year)	108.0	33.0	(13.0)	128.0	2.96	3.39
Variable Temporary Loan	0	10.0	0	10.0	0.00	4.25
Bank Balance	0	0	(0.1)	(0.1)		
GROSS EXTERNAL BORROWING	1,014.3	48.0	(15.0)	1,047.3		
<i>Temporary Deposits</i>	<i>(63.0)</i>	<i>(174.4)</i>	174.6	<i>(62.8)</i>	3.32	4.12
NET EXTERNAL BORROWING	951.3	(126.4)	159.6	984.5		
Total loan average					3.77	3.81

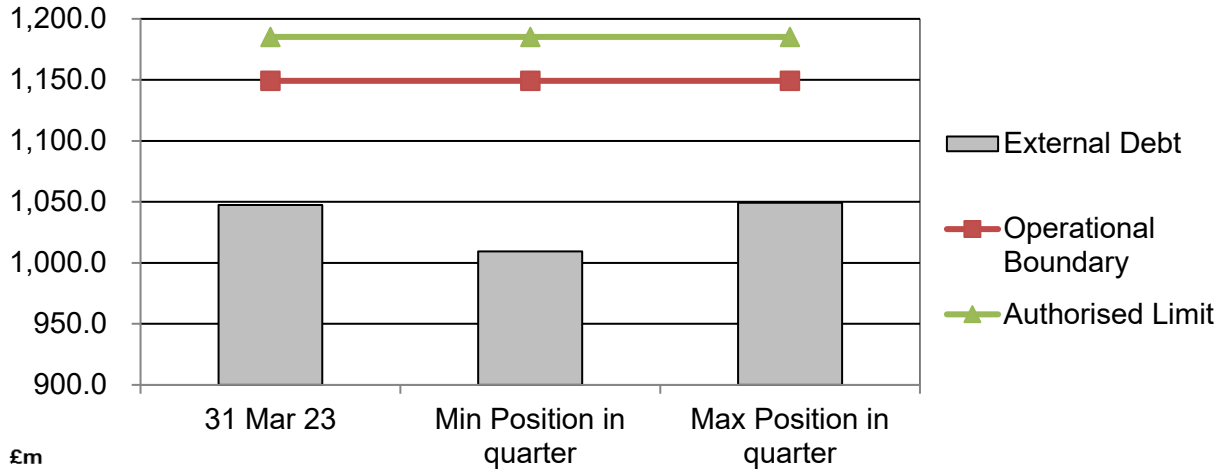
<u>Borrowing / Lending internal parameters as per approved Treasury Management Practices</u>	<u>Actual</u> %	<u>Approv ed Max</u> %
Short-term borrowing as % of the Council's total outstanding debt	10.6	25.0
Borrowing at variable rates of interest as % of the Council's total outstanding loan debt	3.6	35.0

Appendix 2

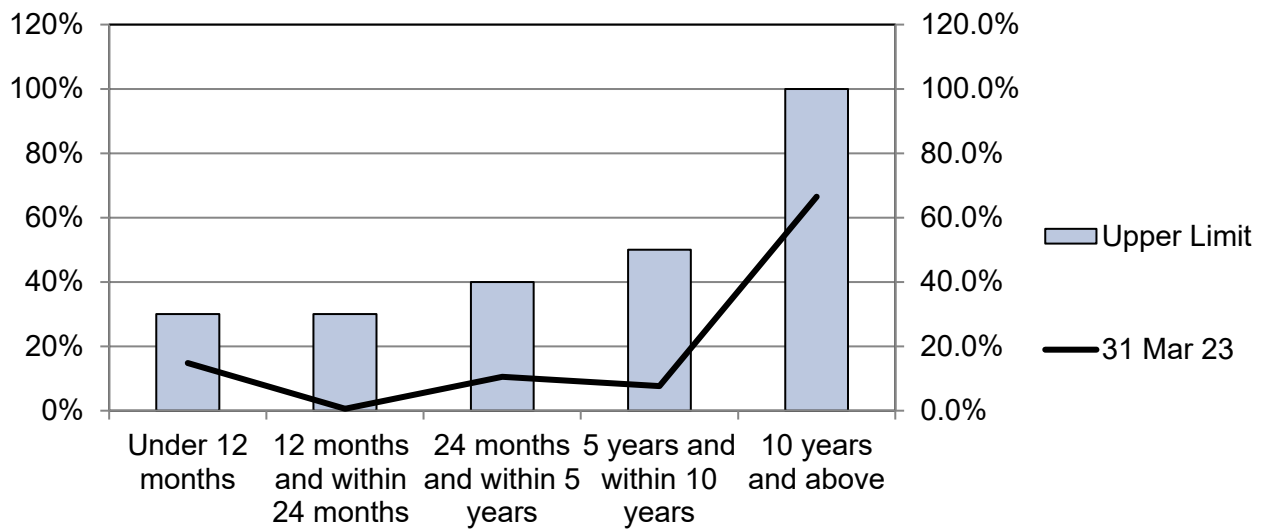
Treasury Management - Prudential Indicators

The Council has complied with all the prudential limits set in the TMSS 2022/23 during the quarter to 31 March 2023.

External Debt

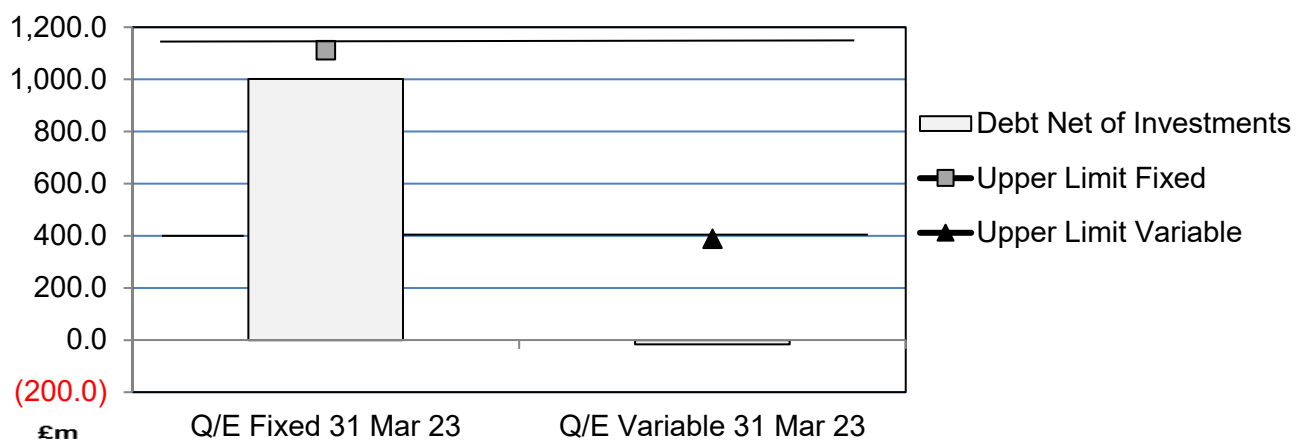


Maturity Structure of Fixed Rate Borrowing



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 March 2023.

Counterparty	Total amount £m	Counter party limit £m	Link credit rating Mar 23	Amount £m	Deposit Type	Rate Mar 23 %	Duration
Clydesdale** Bank	13.5	20.0	Green 100 Days	13.9	Call	4.25	N/A
	0.4				CMA	4.25	
Insight Investments MMF	17.5	20.0	AAA rated	17.5	Call	4.11	N/A
Northern Trust MMF	7.3	20.0	AAA rated	7.3	Call	4.09	N/A
Aberdeen Liquidity MMF	4.2	20.0	AAA rated	4.2	Call	4.06	N/A
BlackRock ICS MMF	19.9	20.0	AAA rated	19.9	Call	4.10	N/A
Total Deposits	62.8			62.8			

** includes overnight deposit in Clydesdale Cash Management Account