

Agenda Item	6.a
Report No	RES/40/23

The Highland Council

Committee: Corporate Resources

Date: 7 December 2023

Report Title: Treasury Management – Summary of Transactions
Quarter ended 30 September 2023

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 2023 to 30 September 2023.

3. Implications

- 3.1 Resource and Risk – the approach 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. This approach is kept under regular review and may be changed depending on the prevailing short and long term rates.
- 3.2 There are no Legal, Community (Equality, Poverty, Rural and Island), Climate Change/Carbon Clever, Health & Safety (risks arising from changes to plant, equipment, process or people) or Gaelic implications arising as a direct result of this report.

4. Treasury Management Strategy Statement (TMSS)

- 4.1 The strategy agreed in March 2023 which applies to financial year 2023/24 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 or depending on prevailing rates.
- 4.2 In the TMSS, reprofiled programme capital expenditure per the 2 March Council report, had been used to estimate future borrowing. The Council Budget 2023/24 report to Council also recommended approval of a Loans Fund Principal Repayment 'holiday' in 2023 which is also covered in the report to Council (sections 7.3 to 7.5 and Appendix 11).
- 4.3 In September 2023, a revised capital programme was agreed covering the 5-year period 2024/25 to 2028/29. The revised programme will be reflected in the next version of the TMSS (2024/25) and approved in early 2024.
- 4.4 Since the increase in the bank rate on 16 December 2021 to 0.25%, the Monetary Policy Committee (MPC) has voted in favour of further Bank Rate increases to try to curb inflation, as follows –

3 March 2022	0.50%
17 March 2022	0.75%
5 May 2022	1.00%
16 June 2022	1.25%
4 August 2022	1.75%
22 September	2.25%
3 November 2022	3.00%
15 December 2022	3.50%
2 February 2023	4.00%
23 March 2023	4.25%
11 May 2023	4.50%
22 June 2023	5.00%
03 August 2023	5.25%

- 4.5 On 21 September the MPC voted to hold the Bank Rate at 5.25% and the rate has held at this level, with the next MPC scheduled for 14 December. Temporary borrowing and deposit interest are less volatile however a lack of lenders means supply of temporary borrowing has been less available in the Market.

5. Borrowing undertaken and repayments made

- 5.1 There is continuing market uncertainty influenced by both domestic and geopolitical factors. The Bank Rate increased to 5.25% on 3 August 2023 and remains at this level after subsequent MPC meetings. The Council's Treasury Management advisor, Link, currently predicts it will remain at this level before starting to reduce from September 2024.
- 5.2 For the quarter ending 30 September 2023 there was £10.0m of temporary borrowing undertaken and temporary loans of £25.0m were repaid. As a comparison the previous quarter and previous year balances and average rates are shown below.

Quarter end	Balance £m	Average Temporary Loan rate (fixed)%
Sept 2023	118.0	4.25
June 2023	133.0	3.68
Sept 2022	79.0	0.98

Notice was served on the £10.0m variable rate loan linked to Bank Rate (5.25% at point of repayment) and it was repaid on 4 September 2023.

- 5.3 As at 30 September 2023, the total of Public Works Loan Board (PWLB) loans was £779.6m (£779.6m at 30 June 23) and long term Market loans totalled £129.8m (£129.8m at 30 June 2023).

There were no PWLB or Long-Term Market repayments made during the period from 1 July 2023 to 30 September 2023. There was no new PWLB or Long-Term Market borrowing undertaken, and the current approach is to continue to use short-term borrowing while long-term borrowing rates remain at high levels though this is kept under review and may change depending on prevailing rates.

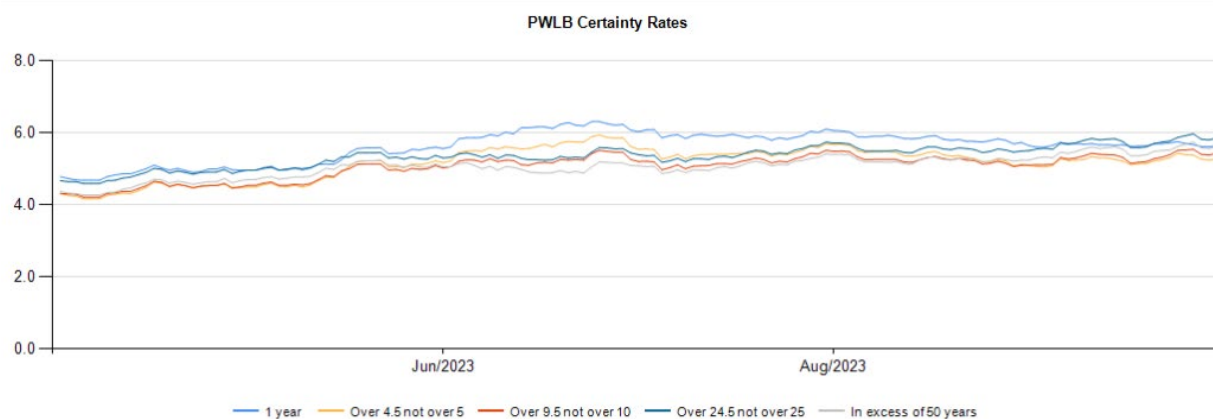
- 5.4 For comparison, the difference between average short-term market borrowing and longer-term PWLB rates are shown below. The table highlights that the relative financial 'saving' from temporary borrowing versus the cost of longer-term PWLB borrowing is much lower now than a year ago. Interest rates have increased but the difference between temporary and longer-term borrowing rates has reduced.

The Council's current approach is to continue to use short-term borrowing to avoid locking into longer-term borrowing at high interest rates. This approach is regularly reviewed and subject to change depending on the prevailing short and long term borrowing rates. The table below shows that the cost of temporary borrowing is relatively high compared to a year ago and the narrowing difference between using long and short term rates.

Lender	Indicative Temporary Loan rate (1y) %	PWLB 20y rate %	Difference %
Sept 2023	5.80	5.84	0.04
Sept 2022	4.00	5.09	1.09

- 5.5 The PWLB rates for the financial year 2023/24 to September 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 Following the UK Government Budget of March 2023, from 15 June 2023, a preferential HRA certainty rate was 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. The HRA certainty rate is a reduction of 0.40% to the PWLB Standard Rate and the authority borrowing must provide a return in advance of the borrowing to state that these funds will be used to build or acquire new homes to increase the authority's HRA Housing stock.

6. Deposits

- 6.1 Cash flow, uncertainty, and the need to maintain liquidity, has meant the Council has held most of its 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 30 September 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 2023/24 which was approved by Corporate Resources on 9 March 2023.

Designation: Head of Corporate Finance

Date: 16 November 2023

Author: Mairi MacCallum, Treasury Officer

Background Papers:

https://www.highland.gov.uk/download/meetings/id/81326/15_treasury_management_strategy_statement

https://www.highland.gov.uk/download/meetings/id/82113/9b_summary_of_transactions

https://www.highland.gov.uk/download/meetings/id/82168/item_12_capital_programme_review

Appendix 1

Treasury Management - Summary of Transactions for the Quarter to 30 Sep 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	
					30 Jun 23 %	30 Sep 23 %
Public Works Loan Board	779.6	0	0	779.6	3.78	3.78
Market Loans	93.3	0	0	93.3	4.33	4.33
LOBO Market Loans	36.5	0	0	36.5	4.58	4.58
Fixed Temporary Loans (term < 1 year)	133.0	10.0	(25.0)	118.0	3.68	4.25
Variable Temporary Loan	10.0	0	(10.0)	0	4.50	-
Bank Balance	0	0	0	0		
GROSS EXTERNAL BORROWING	1,052.4	10.0	(35.0)	1,027.4		
<i>Temporary Deposits</i>	<i>(83.6)</i>	<i>(215.3)</i>	212.0	<i>(86.9)</i>	4.45	5.30
NET EXTERNAL BORROWING	968.8	<i>(205.3)</i>	177.0	940.5		
Total loan average					3.88	3.91

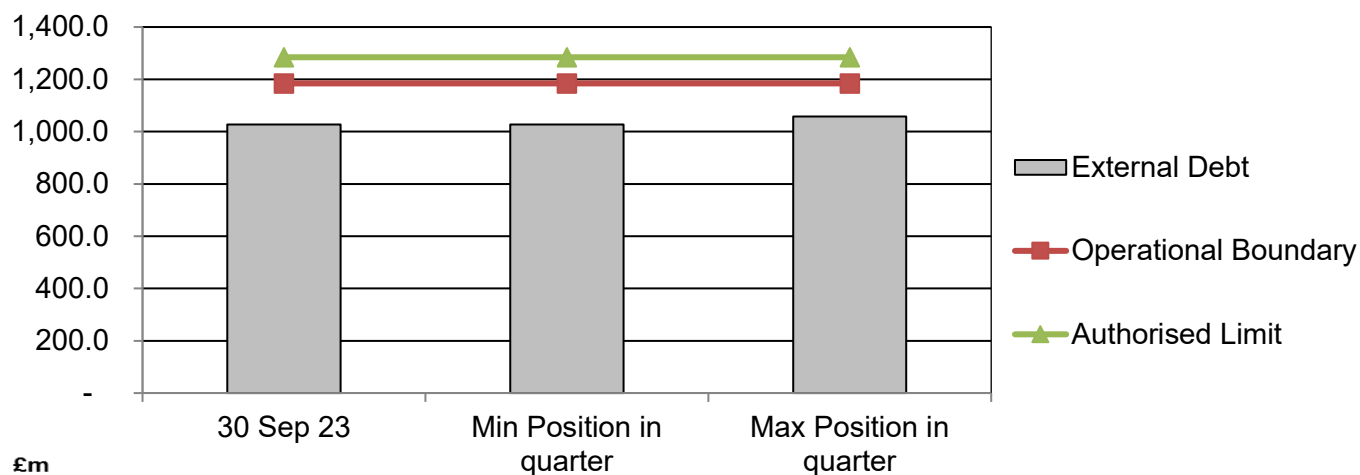
<u>Borrowing / Lending internal parameters as per approved Treasury Management Practices</u>	<u>Actual</u> %	<u>Approved Max</u> %
Short-term borrowing as % of the Council's total outstanding debt	11.5	25.0
Borrowing at variable rates of interest as % of the Council's total outstanding loan debt	3.6	35.0

Appendix 2

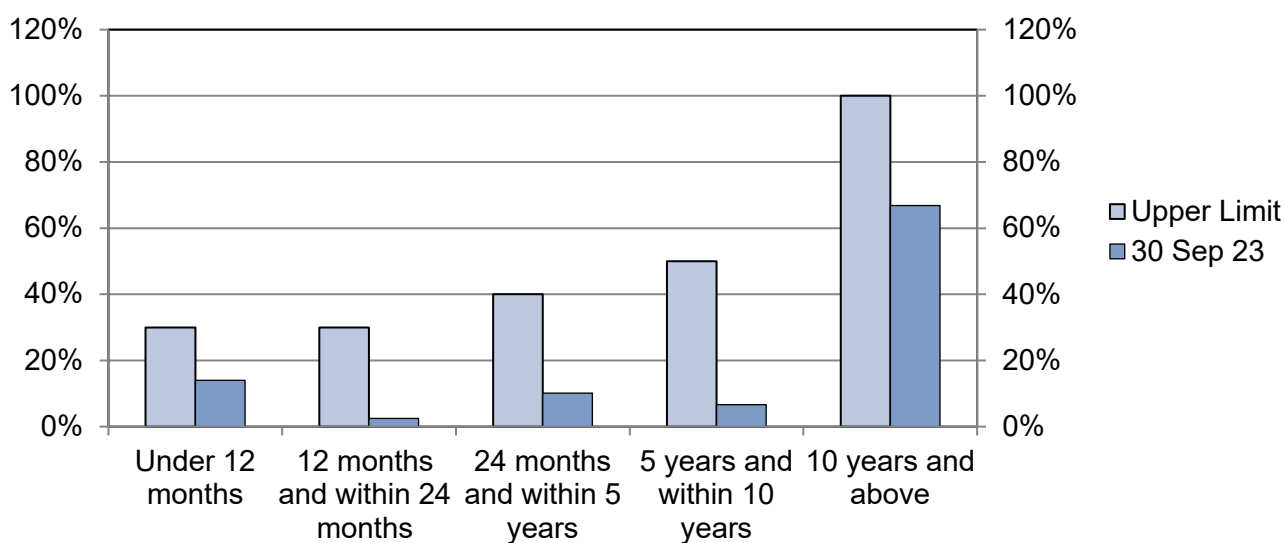
Treasury Management - Prudential Indicators

The Council has complied with all the prudential limits set in the TMSS 2023/24 during the quarter to 30 September 2023.

External Debt

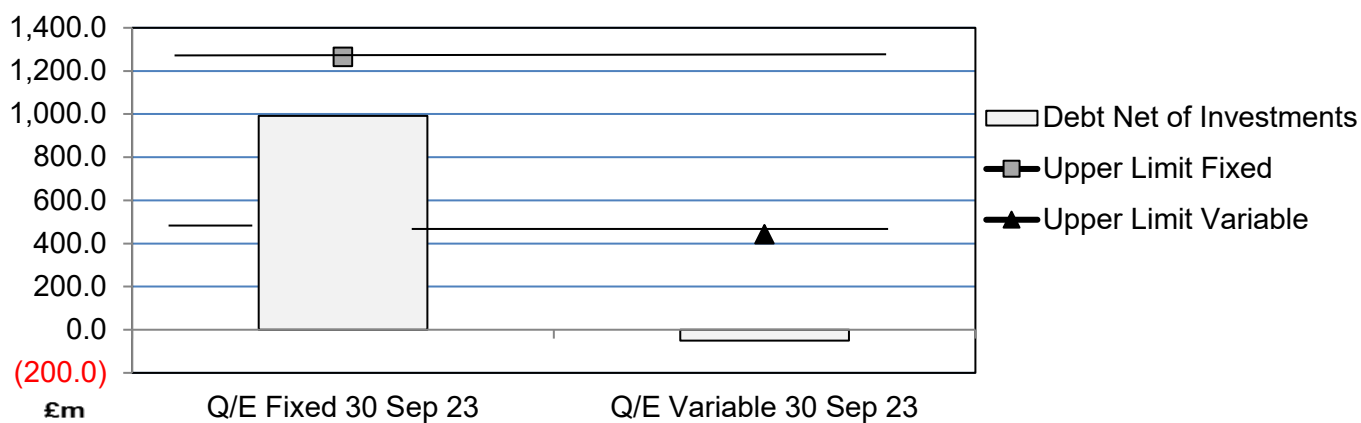


Maturity Structure of Fixed Rate Borrowing



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 30 September 2023.

Counterparty	Total amount £m	Counter-party limit £m	Link credit rating Sep 23	Amount £m	Deposit Type	Rate Sep 23 %	Duration
Clydesdale** Bank	17.5	20.0	Green 100 Days	17.6	Call	5.25	N/A
	0.1				CMA	5.25	
Insight Investments MMF	20.0	20.0	AAA rated	20.0	Call	5.30	N/A
Northern Trust MMF	19.1	20.0	AAA rated	19.1	Call	5.34	N/A
Aberdeen Liquidity MMF	17.4	20.0	AAA rated	17.4	Call	5.29	N/A
BlackRock ICS MMF	2.8	20.0	AAA rated	2.8	Call	5.23	N/A
Santander	10.0	20.0	R – 6 mths	10.0	95 DN	5.60	N/A
Total Deposits	86.9			86.9			

** includes overnight deposit in Clydesdale Cash Management Account which may occasionally result in a small overnight overlimit