

Agenda Item	8.
Report No	RES/06/24

The Highland Council

Committee: Corporate Resources

Date: 7 March 2024

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

Report By: Interim 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 October 2023 to 31 December 2023.

3. Implications

- 3.1 Resource and Risk – the approach of using short-term borrowing has associated risks such as rates increasing, and/or appropriate borrowing not being available when required. This approach is kept under regular review and may be changed depending on the prevailing short and long-term rates.

The impact on our borrowing approach due to the increasing cost and availability of short-term borrowing is considered at paragraph 5.3.

- 3.2 Treasury management activity is undertaken in accordance with relevant legislation, guidance and codes of practice, and the Council's Treasury Management Strategy Statement.
- 3.3 There are no 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 was to continue to use short-term borrowing to fund the capital programme, given the level of interest rates during the year, but to also consider long-term borrowing to replace maturities to manage refinancing risks or depending on prevailing rates. Members will note from this report that for a range of factors described, the use of Public Works Loans Board (PWLB) and longer-term borrowing has become more attractive and a lower-risk approach over recent months.
- 4.2 In September 2023, a revised capital programme was agreed covering the 5-year period 2024/25 to 2028/29. An updated TMSS for 2024/25 will be considered by members in March 2024.
- 4.3 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%
3 August 2023	5.25%

- 4.4 On 14 December, the MPC voted to hold the Bank Rate at 5.25% and on 1 February 2024 the MPC again voted to hold at 5.25%.
- 4.5 The rates for short term borrowing are currently higher than base rate due to a reduced number of lenders in the inter authority lending market which means that in relation to temporary borrowing, there has been significant challenges around availability in the market, and as a result and based on supply and demand, there has been notable increase in short-term interest rates as a result. Which has led to the Council sourcing borrowing from PWLB during the Quarter.

5. Borrowing Undertaken and Repayments Made

- 5.1 There is continuing market uncertainty influenced by both domestic and geopolitical factors. Bank Rate is held at 5.25% and 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 31 December 2023 there was £85.0m of temporary borrowing undertaken and temporary loans of £69.0m 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)%
Dec 2023	134.0	5.25
Sept 2023	118.0	4.25
Dec 2022	108.0	2.96

- 5.3 At 31 December 2023, the total of Public Works Loan Board (PWLB) loans was £819.2m (£779.6m at 30 Sep 23) and long-term Market loans totalled £129.8m (£129.8m at 30 Sep 2023). Repayments of £0.4m were made to the PWLB between 1 October 2023 to 31 December 2023.

As temporary borrowing rates further increased towards end of November 2023 there was £40m of PWLB borrowing undertaken due to liquidity requirements. This was borrowed over a range of repayment periods in order to manage refinancing risks, as follows.

Amount £m	Start Date	Maturity Date	Rate %
20.0	28/11/2023	30/09/2035	4.38
10.0	07/12/2023	02/06/2025	5.11
10.0	21/12/2023	30/09/2029	3.98
40.0			

PWLB rates offered better value than short-term borrowing rates which increased towards the end of this quarter due to reduced availability. There has also been very limited availability of short-term market borrowing, driven by supply and demand factors. It is likely that over the remainder of the financial year, it is likely to be a greater use of PWLB as a borrowing source, unless market or interest rate circumstances alter.

There were no Long-Term Market Loan repayments or Long-Term Market borrowing undertaken.

- 5.4 For comparison, the differences between average short-term market borrowing and longer-term PWLB rates are shown below. The table highlights that being able to make a relative financial 'saving' from temporary borrowing versus the cost of longer-term PWLB borrowing is no longer the case. Temporary Interest rates have increased (due, in the main to a lack of liquidity in the inter-Local Authority Money Market) and shorter dated PWLB borrowing is currently less expensive.

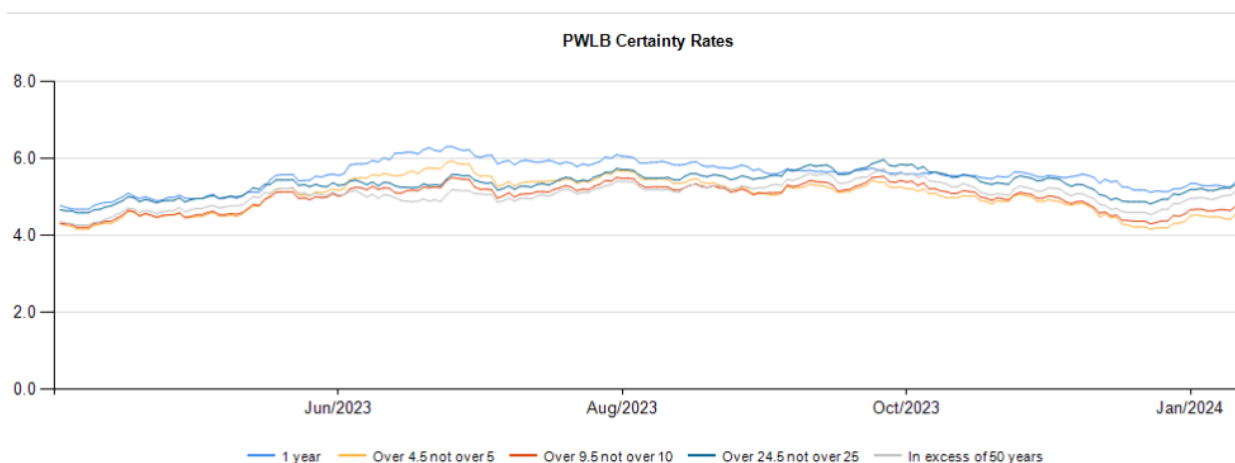
5.5 The Council's approach for much of the financial year has been to use short-term borrowing to avoid locking into longer-term borrowing at high interest rates. This was a mechanism to de-risk longer-term borrowing costs. This approach has been regularly reviewed and as noted in this report, some of the advantages and benefits have declined with the availability and cost of PWLB borrowing, relative to short-term market borrowing, improving. The table below shows that the cost of temporary borrowing is relatively high compared to a year ago and is currently more expensive than PWLB borrowing in certain periods.

	Indicative Temporary Loan rate (1 year) %	PWLB 20-year rate %	Difference %
Dec 2023	5.60	5.10	(0.50)
Sept 2023	5.80	5.84	0.04
June 2023	3.89	5.56	1.67
Dec 2022	4.20	5.09	0.89

As a post-quarter note, the supply and demand issues in the short-term borrowing market persist and at the time of writing, market rates for periods of less than one year are exceeding 6%, and in instances 6.2% being quoted. Reinforcing that PWLB borrowing at short to medium terms is currently viewed as the more attractive option for the Council. The position is kept under regular review.

5.6 The PWLB rates for the financial year 2023/24 to December 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)
- HRA Certainty Rate is gilt plus 40bps (0.4%)(G460bps) until end June 2025.
- 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 most of its cash balances in Money Market Funds (MMFs), this is in line with the approach being taken by other Local Authorities. The rate achievable on Money Market Fund (MMF) investments has remained stable during the quarter.
- 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 at 31 December 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: Interim Head of Corporate Finance

Date: 7 February 2024

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/82585/6a_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 31 Dec 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 Sep 23 %	31 Dec 23 %
Public Works Loan Board	779.6	40.0	(0.4)	819.2	3.78	3.80
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)	118.0	85.0	(69.0)	134.0	4.25	5.25
Variable Temporary Loan	0	0	(0)	0	-	-
Bank Balance	0	0	(0.6)	(0.6)		
GROSS EXTERNAL BORROWING	1,027.4	125.0	(70.0)	1,082.4		
<i>Temporary Deposits</i>	<i>(87.0)</i>	<i>(174.8)</i>	201.5	<i>(60.3)</i>	5.30	5.30
NET EXTERNAL BORROWING	940.4	(49.8)	131.5	1,022.1		
Total loan average					3.91	4.05

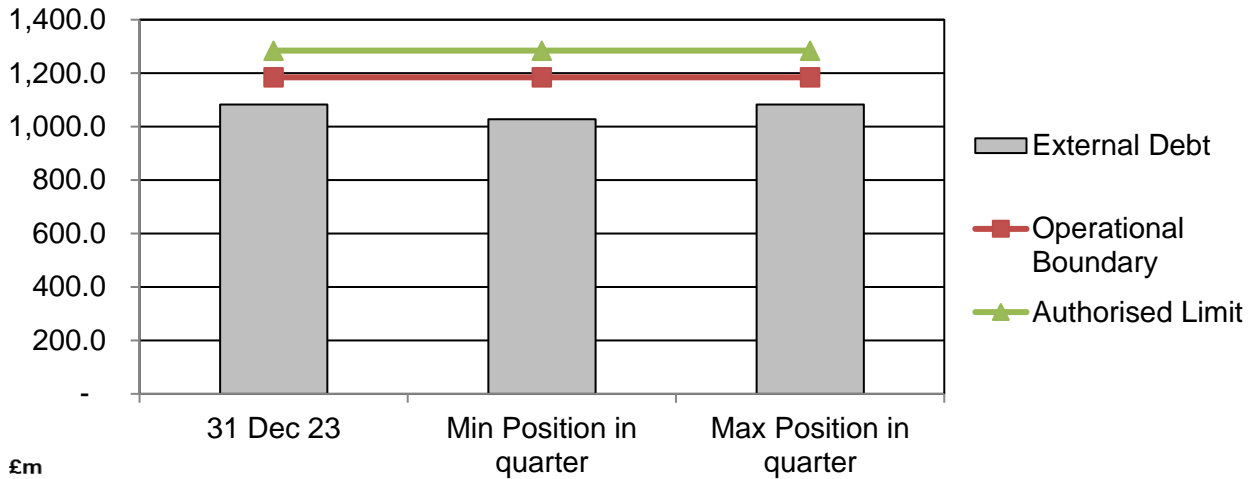
<u>Borrowing / Lending internal parameters as per approved Treasury Management Practices</u>	<u>Actual</u> %	<u>Approved Max</u> %
Short-term borrowing as % of the Council's total outstanding debt	12.4	25.0
Borrowing at variable rates of interest as % of the Council's total outstanding loan debt	3.4	35.0

Appendix 2

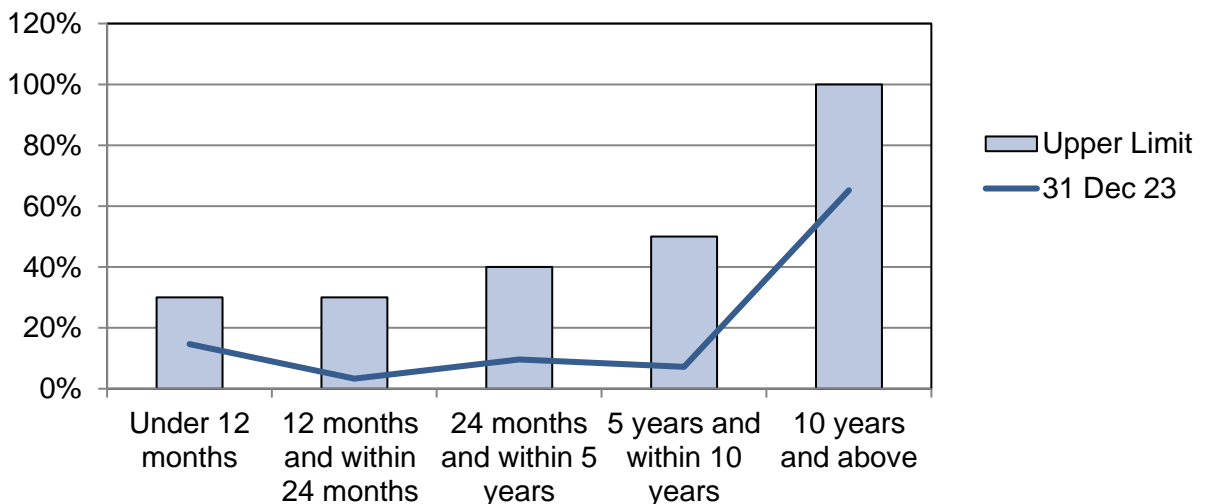
Treasury Management - Prudential Indicators

The Council has complied with all the prudential limits set in the TMSS 2023/24 during the quarter to 31 December 2023.

External Debt

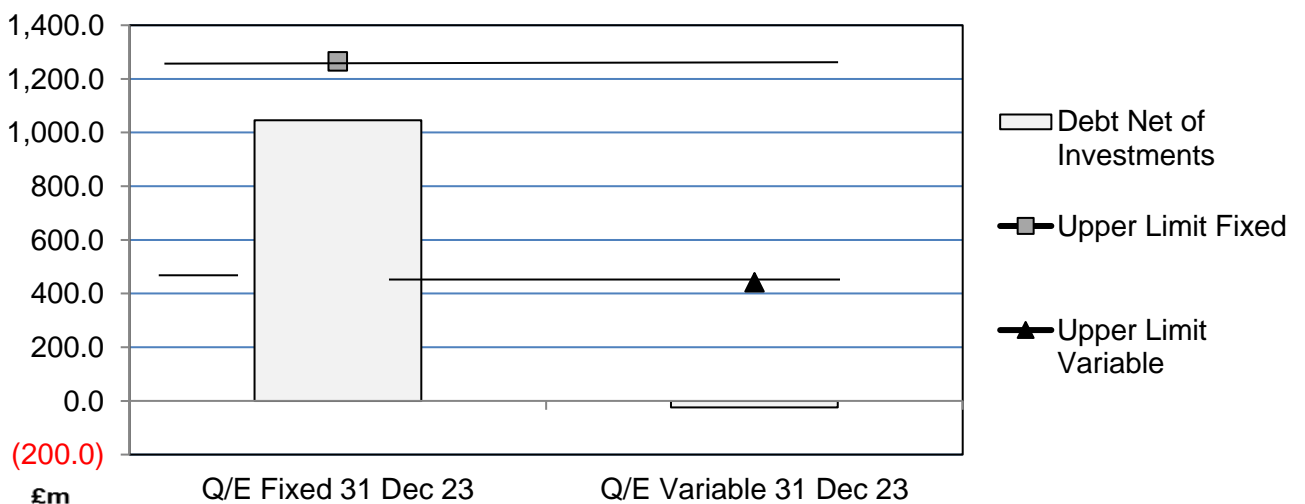


Maturity Structure of Fixed Rate Borrowing



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 December 2023.

Counterparty	Total amount £m	Counter-party limit £m	Link credit rating Sep 23	Amount £m	Deposit Type	Rate Sep 23 %	Duration
Clydesdale** Bank	22.2	20.0	Green 100 Days	22.8	Call	5.25	N/A
	0.6				CMA	5.25	
Insight Investments MMF	6.9	20.0	AAA rated	6.9	Call	5.30	N/A
Northern Trust MMF	19.1	20.0	AAA rated	19.1	Call	5.33	N/A
Aberdeen Liquidity MMF	0.8	20.0	AAA rated	0.8	Call	5.30	N/A
BlackRock ICS MMF	11.2	20.0	AAA rated	11.2	Call	5.33	N/A
Total Deposits	60.8			60.8			

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