

Agenda Item	6
Report No	RES/14/24

The Highland Council

Committee: Corporate Resources

Date: 6 June 2024

Report Title: Treasury Management – Summary of Transactions

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:
 - i. **Consider and note** the Treasury Management - Summary of Transactions report for the period from 1 January 2024 to 31 March 2024.

3. Implications

- 3.1 Resource:

The use of 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 use of short-term borrowing does mitigate the risk of locking into long-term borrowing when rates are forecast to fall in the coming months.

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 Legal:

There are no Legal implications with Treasury activity undertaken in accordance with relevant regulations and within Policy as agreed by Council.

- 3.3 Community (Equality, Poverty, Rural and Island):
There are no implications arising as a direct result of this report.
- 3.4 Climate Change / Carbon Clever:
There are no implications arising as a direct result of this report.
- 3.5 Risk:
See paragraph 3.1.
- 3.6 Health and Safety (risks arising from changes to plant, equipment, process, or people):
There are no implications arising as a direct result of this report.
- 3.7 Gaelic:
There are no 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 in the current high interest rate environment to fund the capital programme but consider long-term borrowing to replace maturities to manage refinancing risks or depending on prevailing rates. As members will note from the report, supply and demand challenges in the short-term borrowing market have pushed those rates upwards and as a result borrowing from PWLB as a source has been a more attractive proposition in the quarter.
- 4.2 In September 2023, a revised capital programme was agreed covering the 5-year period 2024/25 to 2028/29. The revised programme was reflected in the most recent version of the TMSS (2024/25) and approved 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 3 August 2023, the MPC voted to increase the Bank Rate to 5.25%, at subsequent meetings and at the time of report writing rates are held at 5.25%.

4.5 The rates for short term borrowing were higher than Bank Rate and, due to a reduced number of lenders in the Inter Authority Money Market there were very few Offers at the start of the quarter with borrowers having to pay in the region of 5.60% to secure one year money. With supply traditionally scarce at the end of the financial year rates were as high as 6.30% for the same period, significantly higher than PWLB for comparable terms.

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. More recent media coverage has implied the possibility rates may reduce at an earlier stage over the summer.
- 5.2 For the quarter ending 31 March 2024 there was £43.0m of temporary borrowing undertaken and temporary loans of £44.0m were repaid. As a comparison the previous quarter and previous year balances and average rates are shown below.

Temporary Borrowing:

Quarter end	Balance £m	Average Temporary Loan rate (fixed)%
March 2024	133.0	5.61
December 2023	134.0	5.25
March 2023	128.0	3.39

- 5.3 On 31 March 2024, the total of Public Works Loan Board (PWLB) loans was £889.2m (£819.2m at 31 December 23) and long-term Market loans totalled £119.8m (£129.8m at 31 December 2023).

No repayments were made to the PWLB between 1 January 2024 to 31 March 2024. There was £70m of PWLB borrowing undertaken due to liquidity requirements over the final quarter of the year, and over a range of repayment periods to manage refinancing risks, as follows.

Amount £m	Start Date	Maturity Date	Rate %
5.0	22/01/24	22/01/25	4.84
5.0	31/01/24	31/01/25	4.96
5.0	02/02/24	02/02/25	4.96
5.0	05/02/24	05/02/25	4.92
10.0	22/02/24	30/03/30	4.71
10.0	04/03/24	04/03/25	5.38
10.0	19/03/24	19/03/25	5.33
10.0	27/03/24	27/03/25	5.36
10.0	28/03/24	01/04/25	5.34
70.0			

5.4 During the quarter PWLB rates continued to offer better value than short-term market borrowing rates which increased due to reduced availability, therefore PWLB borrowing was taken for short periods rather than more expensive short-term market borrowing. The quarter reflected some particular supply and demand challenges in the short-term borrowing market which pushed those rates up.

There was one Long-Term Market Loan repayments and no Long-Term Market borrowing undertaken.

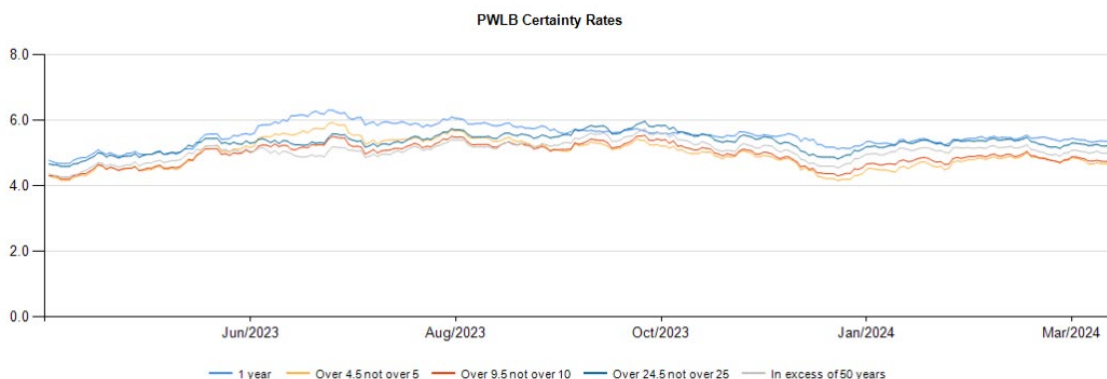
Amount £m	Start Date	Maturity Date	Rate %
10.0	08/02/21	08/02/24	1.00

5.5 The Council's approach has been to use short-term borrowing to avoid locking into longer-term borrowing at high interest rates. This approach is regularly reviewed, and prevailing short and long-term borrowing rates means that during the quarter taking a mix of short-term and longer-term PWLB was the most prudent one with short-term borrowing in the main taken for durations of 6 to 10 months providing flexibility in the debt portfolio to refinance when it is anticipated there will be more liquidity in the Market and as a result rates will have reduced. The table below shows the cost of borrowing compared to the previous year.

	Indicative Temporary Loan rate (1 year) %	PWLB 20-year rate %	PWLB 1-year rate %
Mar 2024	6.00	5.39	5.56
Mar 2023	4.50	4.90	4.98

5.6 The PWLB rates for the financial year 2023/24 to March 2024 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%)(G+60bps) 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), which is similar to 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 March 2024 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: 20 May 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/82980/8_treasury_management_-_summary_of_transactions

Appendices: Appendix 1 - Treasury Management - Summary of Transactions for the Quarter to 31 Mar 2024
Appendix 2 - Treasury Management - Prudential Indicators
Appendix 3 - List of Counterparties

Appendix 1

Treasury Management - Summary of Transactions for the Quarter to 31 Mar 2024

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 23 %	31 Mar 24 %
Public Works Loan Board	819.2	70.0	0	889.2	3.80	3.88
Market Loans	93.3	0	(10.0)	83.3	4.33	4.73
LOBO Market Loans	36.5	0	0	36.5	4.58	4.58
Fixed Temporary Loans (term < 1 year)	134.0	43.0	(44.0)	133.0	5.25	5.61
Variable Temporary Loan	0	0	(0)	0	-	-
Bank Balance	(0.6)	0.6	0	0		
GROSS EXTERNAL BORROWING	1,082.4	113.6	(54.0)	1,142.0		
<i>Temporary Deposits</i>	<i>(60.3)</i>	<i>(176.9)</i>	182.9	<i>(54.3)</i>	5.30	5.26
NET EXTERNAL BORROWING	1,022.1	(63.3)	128.9	1,087.7		
Total loan average					4.05	4.16

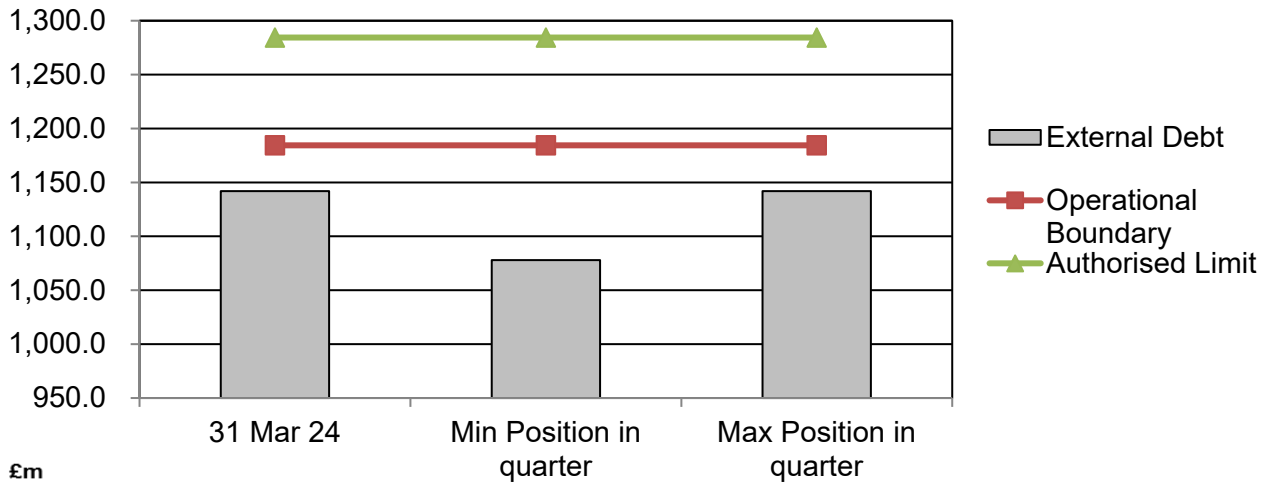
<u>Borrowing / Lending internal parameters as per approved Treasury Management Practices</u>	<u>Actual</u> %	<u>Approved Max</u> %
Short-term borrowing as % of the Council's total outstanding debt	11.6	25.0
Borrowing at variable rates of interest as % of the Council's total outstanding loan debt	3.2	35.0

Appendix 2

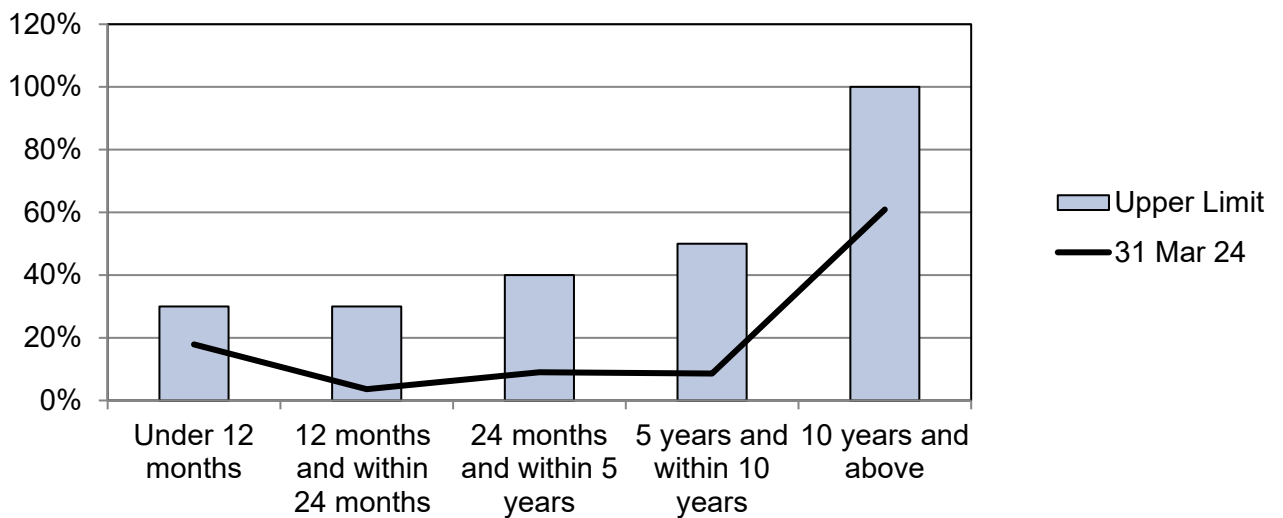
Treasury Management - Prudential Indicators

The Council has complied with all the prudential limits set in the TMSS 2023/24 during the quarter to 31 March 2024.

External Debt

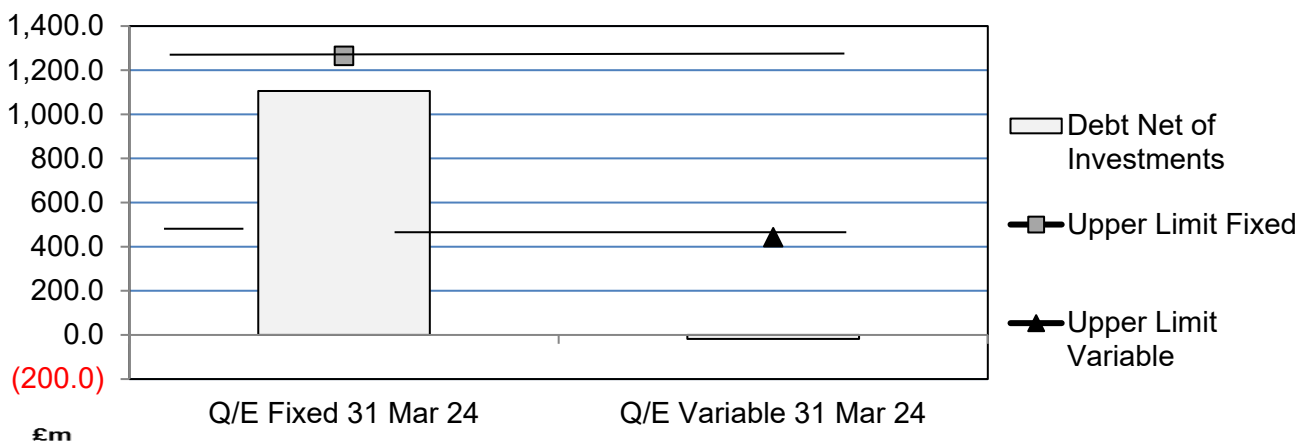


Maturity Structure of Fixed Rate Borrowing



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 2024.

Counterparty	Total amount £m	Counter-party limit £m	Link credit rating Mar 24	Amount £m	Deposit Type	Rate Mar 24 %	Duration
Clydesdale** Bank	19.8	20.0	Green 100 Days	19.8	Call	5.25	N/A
	0.0				CMA	5.25	
Insight Investments MMF	6.4	20.0	AAA rated	6.4	Call	5.26	N/A
Northern Trust MMF	2.1	20.0	AAA rated	2.1	Call	5.24	N/A
Aberdeen Liquidity MMF	20.0	20.0	AAA rated	20.0	Call	5.27	N/A
BlackRock ICS MMF	5.0	20.0	AAA rated	5.0	Call	5.24	N/A
Total Deposits	53.3			53.3			

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