

Agenda Item	9.b
Report No	RES/25/24

The Highland Council

Committee: Corporate Resources

Date: 11 September 2024

Report Title: 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 April 2024 to 30 June 2024.

3. Implications

- 3.1 **Resource:** While interest rates have risen over the past 2 or so years, and in relative terms remain high compared to the past decade and Government targets, the Council has focused on accessing short-term rather than long-term borrowing. The use of short-term borrowing does however have associated risks such as market 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 6.5.

- 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 **Risk:** See paragraph 3.1 for information on managing the risks associated with of short-term borrowing.
- 3.4 **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.
- 3.5 **Gaelic:** There are no implications arising as a direct result of this report.

4. Impacts

- 4.1 In Highland, all policies, strategies or service changes are subject to an integrated screening for impact for Equalities, Poverty and Human Rights, Children's Rights and Wellbeing, Climate Change, Islands and Mainland Rural Communities, and Data Protection. Where identified as required, a full impact assessment will be undertaken.
- 4.2 Considering impacts is a core part of the decision-making process and needs to inform the decision-making process. When taking any decision, Members must give due regard to the findings of any assessment.
- 4.3 This is a monitoring and update report and therefore an impact assessment is not required.

5. Treasury Management Strategy Statement (TMSS)

- 5.1 The strategy agreed in March 2024 which applies to financial year 2024/25 is to fund the capital programme by continuing to consider all borrowing options on an ongoing basis, manage liquidity, refinancing and interest rate risks in order to minimise loan charge interest rates as much as possible.
- 5.2 Since the increase in the Bank Rate on 16 December 2021 to 0.25%, the Monetary Policy Committee (MPC) had voted in favour of further Bank Rate increases to try to curb inflation, however at their 01 August 24 meeting, after inflation fell back to the Bank's 2% target in May 24 and held steady in June 24, they voted for a 0.25% reduction.

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%
01 August 2024	5.00%

6. Borrowing Undertaken and Repayments Made

- 6.1 There is continuing market uncertainty influenced by both domestic and geopolitical factors. Bank Rate held at 5.25% for the purposes of this report and was reduced to 5.00% on 01 August 2024. The Council's Treasury Management advisor, Link, currently predicts it will remain at this level before starting to reduce from December 2024.
- 6.2 For the quarter ending 30 June 2024 there was £26.0m of temporary borrowing undertaken and temporary loans of £27.0m 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)%
June 2024	132.0	5.58
March 2024	133.0	5.61
June 2023	133.0	3.68

- 6.3 On 30 June 2024, the total of Public Works Loan Board (PWLB) loans was £888.7m (£889.2m at 31 March 2024) and long-term Market loans totalled £119.8m (£119.8m at 31 March 2024).

The following principal repayments were made to the PWLB between 1 April 2024 to 30 June 2024, with the total amount repaid being £10.4m.

Amount £m	Loan Type	Start Date	Maturity Date	Rate %
8.8	Maturity	07/08/1997	02/04/2024	6.88
0.8	Maturity	07/07/1997	02/04/2024	7.13
0.8	EIP	28/11/2023	30/9/2025	4.38

There was £10m of PWLB borrowing undertaken due to liquidity requirements at the beginning of the first quarter of the year, as follows.

Amount £m	Start Date	Maturity Date	Rate %
10.0	02/04/24	09/04/25	5.32

- 6.4 During the quarter, with increased liquidity in the inter local authority market, temporary rates began to offer better value than short dated PWLB. At the start of the quarter one PWLB loan was taken before the approach reverted to borrowing short term (less than 364 days) in the inter local authority market.

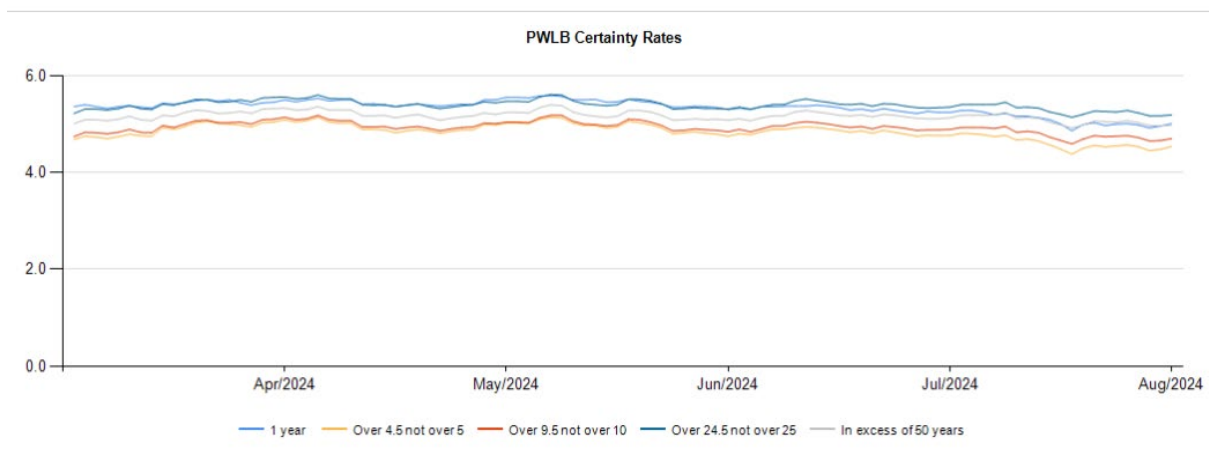
There were no long-term market loan repayments, and no long-term market borrowing was undertaken.

6.5 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 meant that during the quarter taking a mix of short-term and one-year PWLB was the most prudent one, as anticipated there was more liquidity in the short-term Market and as a result rates reduced during the quarter. 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 %
Jun 2024	5.10	5.57	5.57
Mar 2024	6.00	5.39	5.56
Jun 2023	5.75	5.66	6.42

6.6 The PWLB rates for the financial year 2024/25 to date are shown in the graph below. Local authorities cannot borrow 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)



7. Deposits

7.1 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 of return on Money Market Fund (MMF) investments remained stable during the quarter.

7.2 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**.

7.3 A full list of all counterparties at 30 June 2024 is at **Appendix 3**.

7.4 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.

- 7.5 The transactions reported here have been undertaken in line with the Council's Treasury Management Strategy Statement and Investment Statement (TMSS) for 2024/25 which was approved by Corporate Resources on 14 March 2024.

Designation: Head of Corporate Finance

Date: 21 August 2024

Author: Mairi MacCallum, Treasury Officer

Background Papers:

https://www.highland.gov.uk/download/meetings/id/83028/item_18_treasury_management_strategy_statement

https://www.highland.gov.uk/download/meetings/id/83400/6_treasury_management_%E2%80%93_summary_of_transactions

Appendices: Appendix 1 - Treasury Management - Summary of Transactions for the Quarter to 30 June 2024
Appendix 2 - Treasury Management - Prudential Indicators
Appendix 3 - List of Counterparties

Appendix 1

Treasury Management - Summary of Transactions for the Quarter to 30 Jun 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 Mar 24 %	30 Jun 24 %
Public Works Loan Board	889.2	10.0	(10.4)	888.8	3.88	3.89
Market Loans	83.3	0	0	83.3	4.73	4.73
LOBO Market Loans	36.5	0	0	36.5	4.58	4.58
Fixed Temporary Loans (term < 1 year)	133.0	26.0	(27.0)	132.0	5.61	5.58
Variable Temporary Loan	0	0	(0)	0	-	-
Bank Balance	(0)	0	0	0		
GROSS EXTERNAL BORROWING	1,142.0	36.0	(37.4)	1,140.6		
<i>Temporary Deposits</i>	<i>(54.3)</i>	<i>(192.8)</i>	175.2	<i>(71.9)</i>	5.26	5.23
NET EXTERNAL BORROWING	1,087.7	(156.8)	137.8	1,068.7		
Total loan average					4.16	4.17

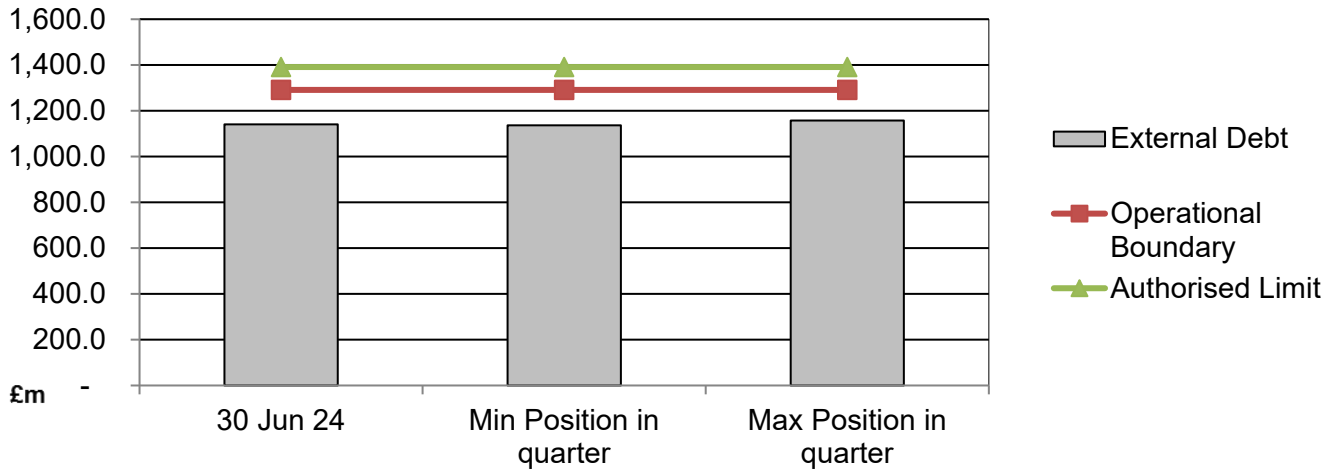
<u>Borrowing / Lending internal parameters as per approved Treasury Management Practices</u>	<u>Actual</u> %	<u>Approved Max</u> %
Short-term borrowing as % of the Council's total outstanding debt	11.6	25.0
Borrowing at variable rates of interest as % of the Council's total outstanding loan debt	3.2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

Appendix 2

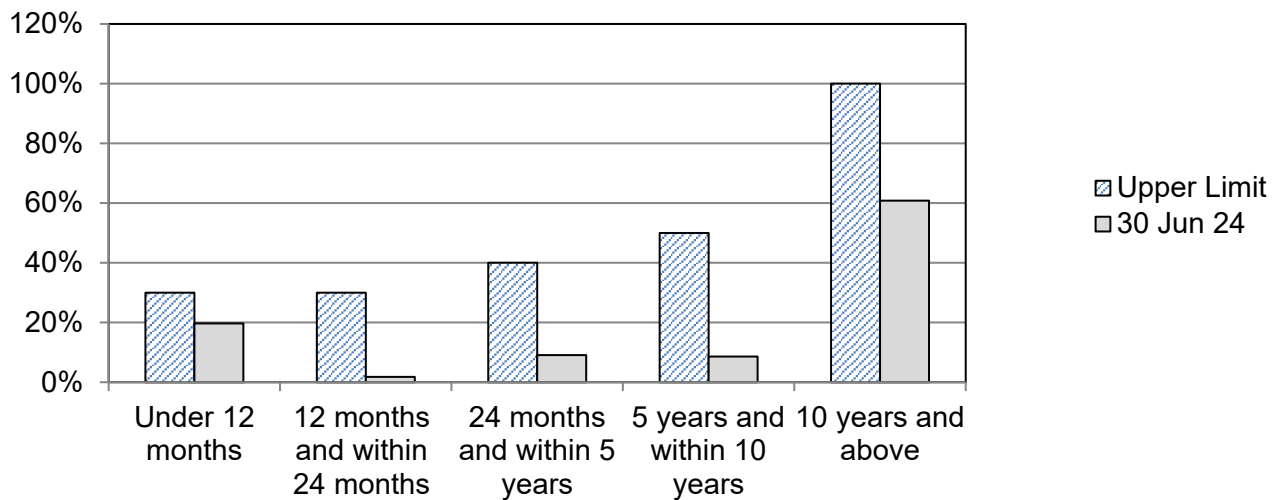
Treasury Management - Prudential Indicators

The Council has complied with all the prudential limits set in the TMSS 2024/25 during the quarter to 30 June 2024.

External Debt

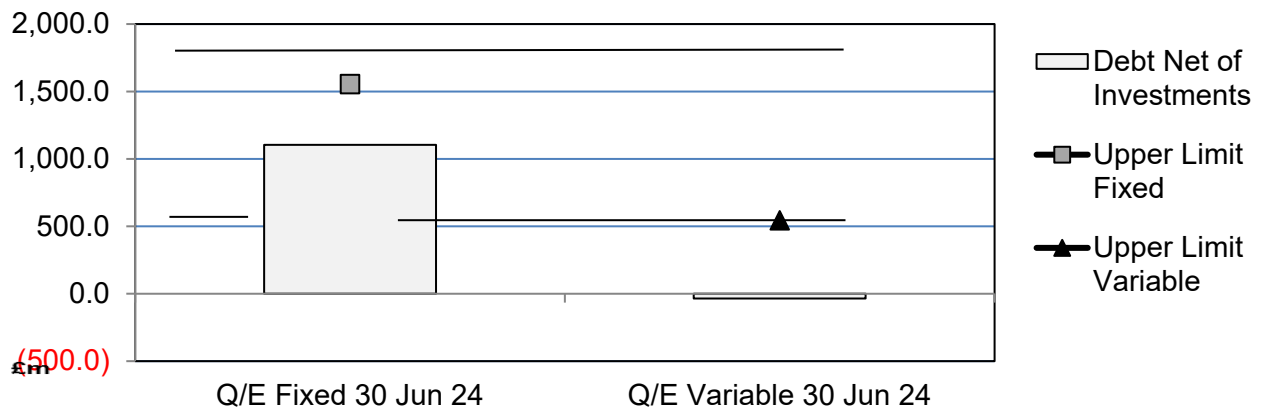


Maturity Structure of Fixed Rate Borrowing



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 30 June 2024.

Counterparty	Total amount £m	Counter-party limit £m	Link credit rating Jun 24	Amount £m	Deposit Type	Rate Jun 24 %	Duration
Clydesdale** Bank	17.9	20.0	Green 100 Days	18.4	Call	5.25	N/A
	0.5				CMA	5.25	
Insight Investments MMF	14.7	20.0	AAA rated	14.7	Call	5.23	N/A
Northern Trust MMF	18.7	20.0	AAA rated	18.7	Call	5.22	N/A
Aberdeen Liquidity MMF	20.0	20.0	AAA rated	20.0	Call	5.23	N/A
BlackRock ICS MMF	0.1	20.0	AAA rated	0.1	Call	5.17	N/A
Total Deposits	71.9			71.9			

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