

Agenda Item	6
Report No	RES/03/25

The Highland Council

Committee: Corporate Resources

Date: 20 March 2025

Report Title: Treasury Management – Summary of Transactions

Report By: Chief Officer – 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 October 2024 to 31 December 2024.

3. Implications

- 3.1 **Resource:** While interest rates have risen over the past 2 or so years, Bank base rates are now starting to reduce. In relative terms rates remain high compared to the past decade and UK Government targets. The Council has focused on accessing short-term rather than long-term borrowing on the basis that rates are expected to fall further. 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 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.

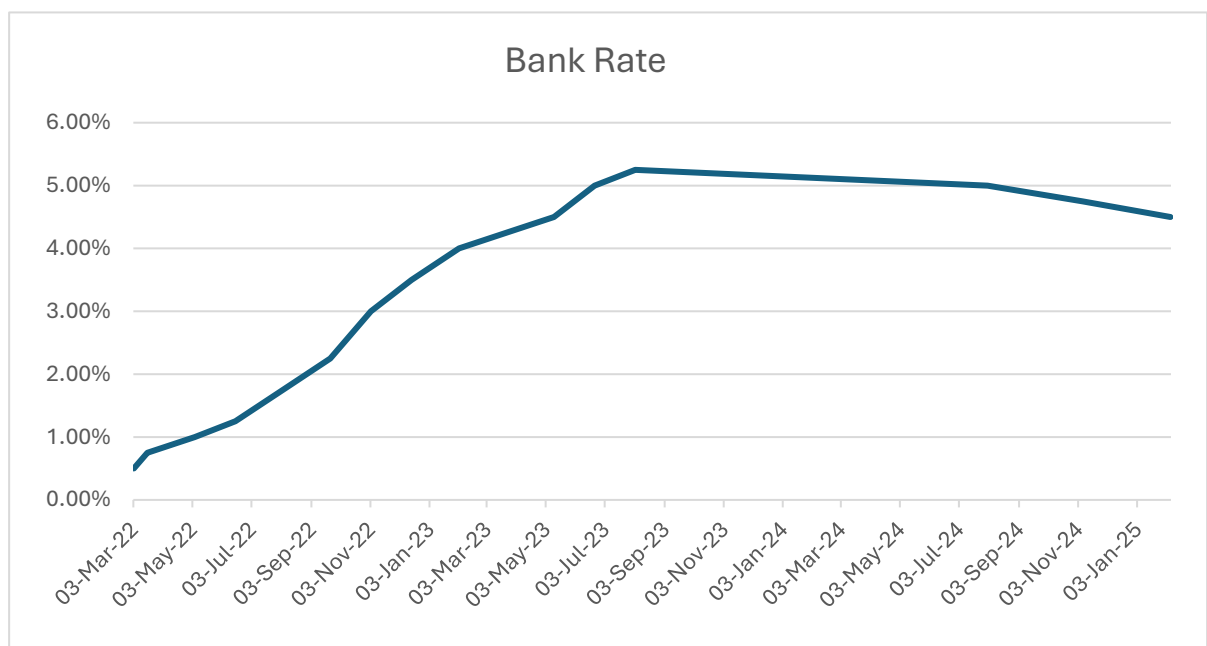
4.2 Considering impacts is a core part of the decision-making process and needs to inform the decision-making process. When taking any decision, Members must give due regard to the findings of any assessment.

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 to minimise loan charge interest rates as much as possible.

5.2 The Bank of England Monetary Policy Committee (MPC) sets monetary policy to meet the UK Government 2% inflation target. At its meeting on 05 February 2025, it voted by a majority of 7 – 2 to reduce bank rate by 0.25% to 4.50% citing at that time the substantial progress on disinflation over the past two years.

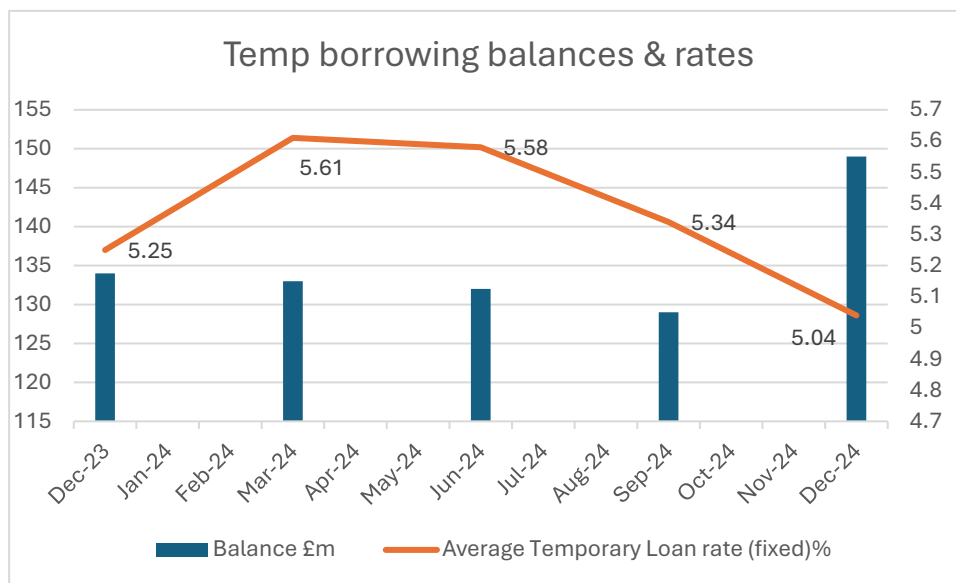


6. Borrowing Undertaken and Repayments Made

6.1 There is continuing market uncertainty influenced by both domestic and geopolitical factors. Bank Rate was reduced to 4.75% on 07 November 2024 and was reduced further to 4.50% in February 2025. The Council's Treasury Management advisor, MUFG (formerly Link), currently predicts it will reduce to 4.25% by June 25 and 4.00% by December 25 remaining at that level for the remainder of the year.

6.2 For the quarter ending 31 December 2024 there was £94.0m of temporary borrowing undertaken and temporary loans of £74.0m were repaid. As a comparison the previous quarter's balances and average rates are shown below.

6.3 Temporary Borrowing:



6.4 On 31 December 2024, the total of Public Works Loan Board (PWLB) loans was £957.2m (£887.2m at 30 September 2024) and long-term Market loans totaled £119.8m (£119.8m at 30 September 2024).

6.5 The following PWLB borrowing was undertaken between 1 October 2024 to 31 December 2024.

Amount £m	Loan Type	Start Date	Maturity Date	Rate %
20.0	Maturity	23/10/2024	30/09/2029	4.23
10.0	Maturity	30/10/2024	01/05/2026	4.86
20.0	Maturity	21/11/2024	04/05/2027	4.76
20.0	Maturity	25/11/2024	01/07/2027	4.69

There were no PWLB principal repayments made during the quarter.

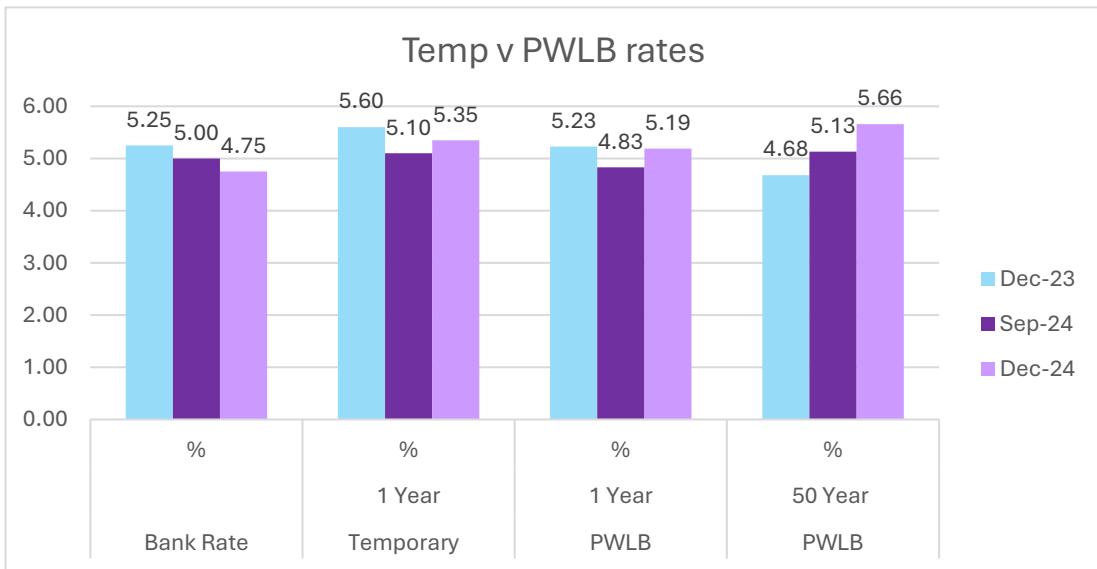
6.6 During the quarter, with some increased liquidity in the inter-local authority market, temporary rates began to offer better value although supply began to decrease again as we moved towards its end.

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

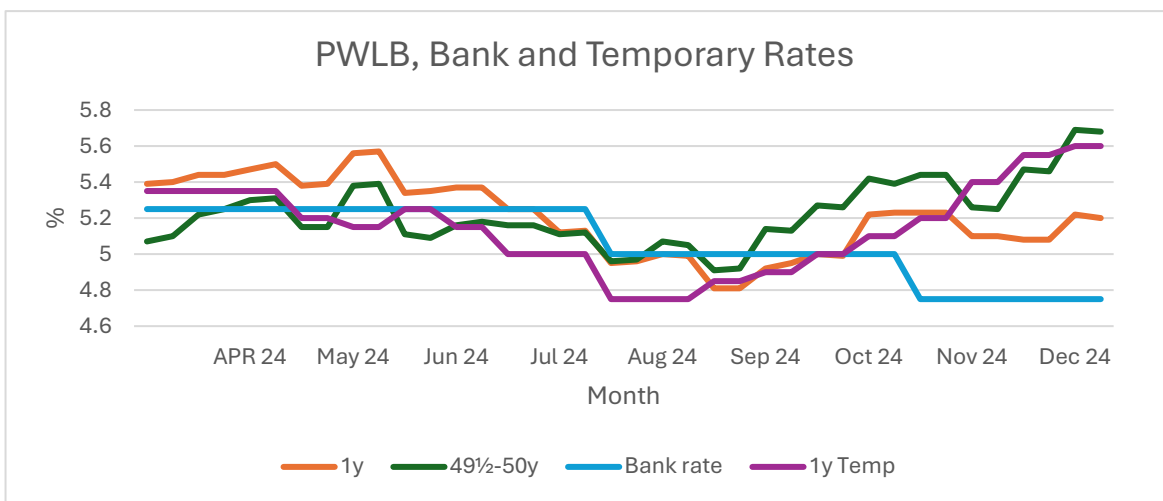
6.8 The Council’s approach has been to use short-term borrowing to avoid locking into longer-term borrowing at high interest rates. This approach is regularly reviewed. As we moved through the quarter prevailing short and long-term borrowing rates did not fall as expected (in Feb 24, MUFG’s forecast for March 25 was that Bank Rate would be 3.70% but at the time of writing this report its forecast at 4.50%). A lack of liquidity in the short-term Market meant a mix of temporary borrowing and short dated PWLB borrowing was the most prudent one.

6.9 The first chart below shows the cost of borrowing (interest rates payable) compared to the previous year and the second chart compares PWLB, bank and temporary market rates over the financial year to date. The third chart highlights the relationship between PWLB and Temporary borrowing rates, highlighting in particular (using 1-year terms) where PWLB or market borrowing has been the more attractive at a point in time. Supply and demand remains a key issue in relation to market borrowing such that while rates may at times be more attractive, there is often limited supply of funds.

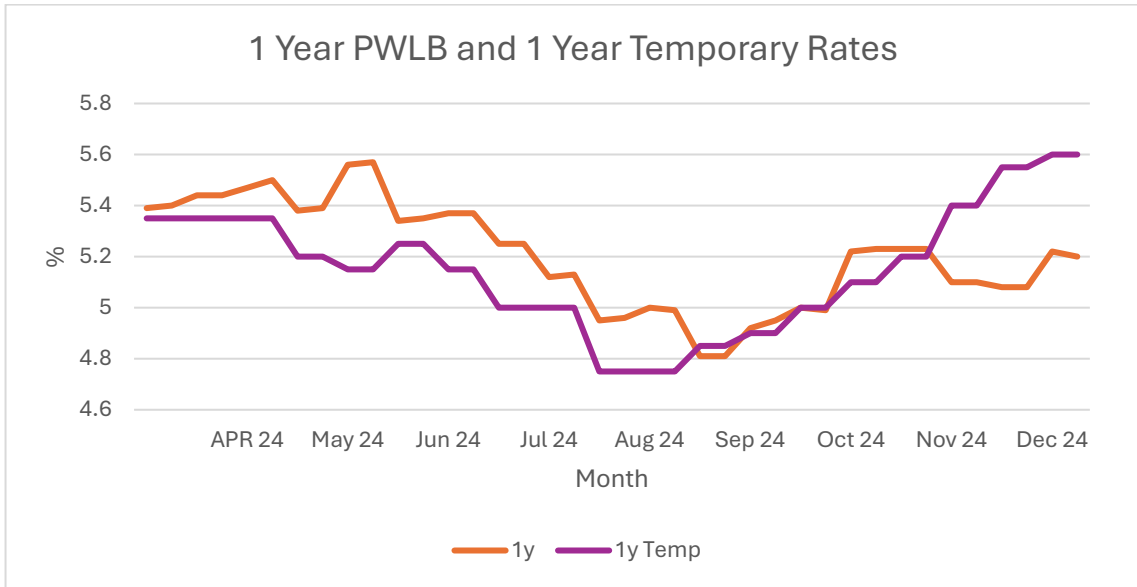
6.9.1



6.9.2



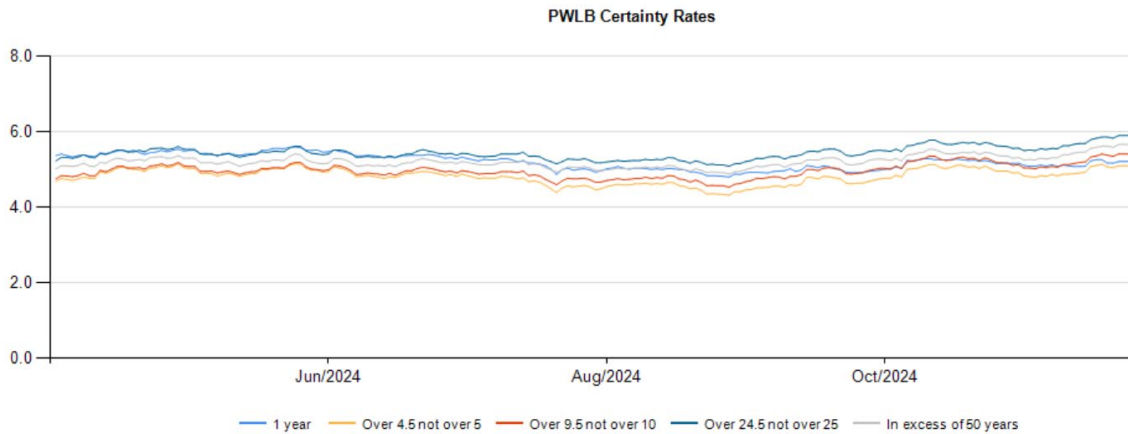
6.9.3



6.10 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)

6.10.1



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) similar to the approach being taken by other Local Authorities. The rate of return on Money Market Fund (MMF) investments reduced 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 31 December 2024 is at **Appendix 3**.

- 7.4 When placing temporary deposits, the Council uses a weekly credit rating list provided by the MUFG, 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 Council on 14 March 2024.

Designation: Chief Officer – Corporate Finance

Date: 26 February 2025

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/84262/8b_treasury_management%E2%80%93summary_of_transactions

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

Appendix 1

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 24 %	31 Dec 24 %
Public Works Loan Board	887.2	70.0	0	957.2	3.89	3.94
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)	129.0	94.0	(74.0)	149.0	5.34	5.04
Variable Temporary Loan	0	0	(0)	0	-	-
Bank Balance	(0)	0	0	0		
GROSS EXTERNAL BORROWING	1,136.0	164.0	(74.0)	1,226.0		
<i>Temporary Deposits</i>	<i>(55.0)</i>	<i>(230.0)</i>	226.5	<i>(58.5)</i>	5.00	4.76
NET EXTERNAL BORROWING	1,081.0	(66.0)	152.5	1,167.5		
Total loan average					4.14	4.15

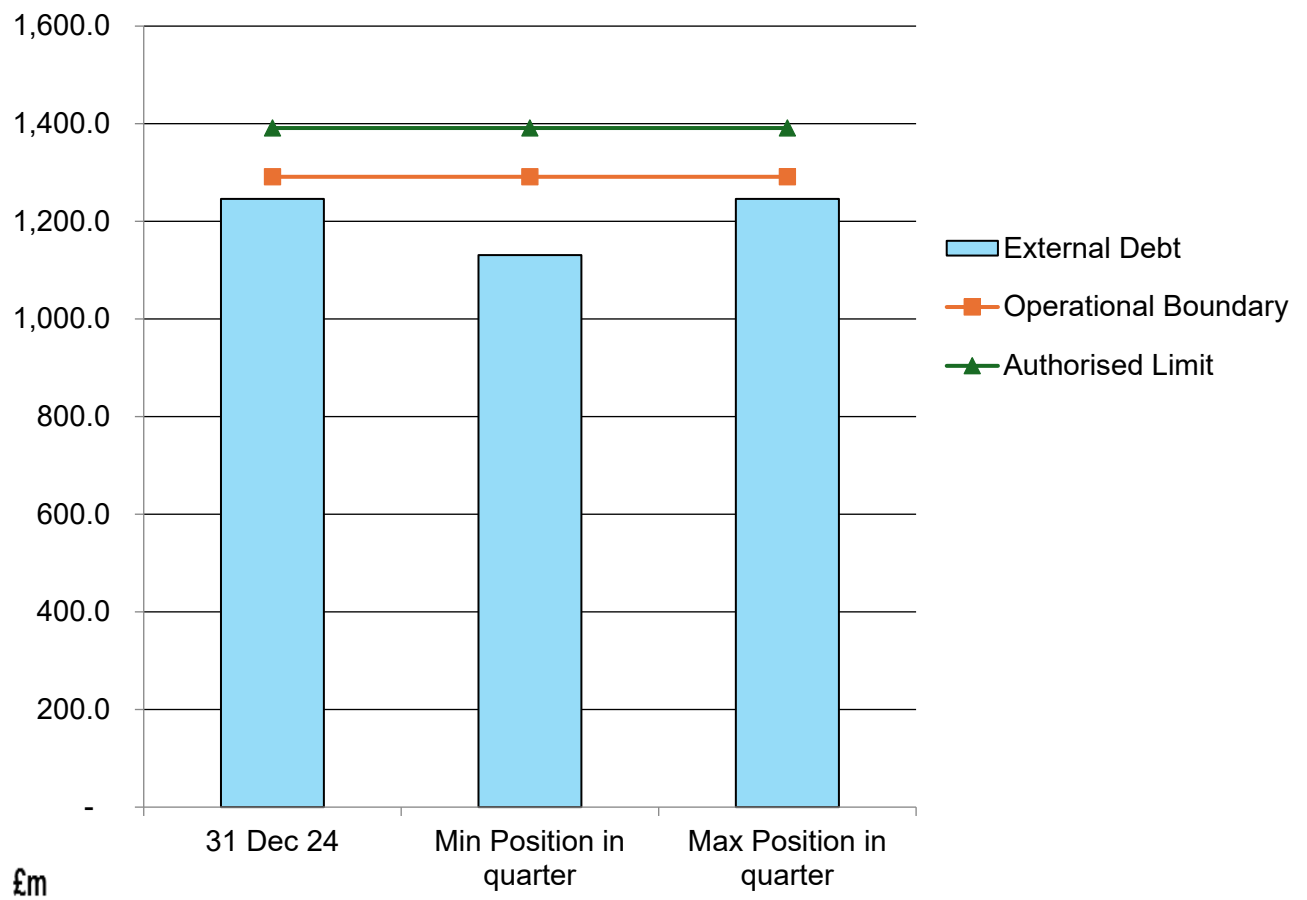
<u>Borrowing / Lending internal parameters as per approved Treasury Management Practices</u>	<u>Actual</u> %	<u>Approved Max</u> %
Short-term borrowing as % of the Council's total outstanding debt	12.2	25.0
Borrowing at variable rates of interest as % of the Council's total outstanding loan debt	3.0	35.0

Appendix 2

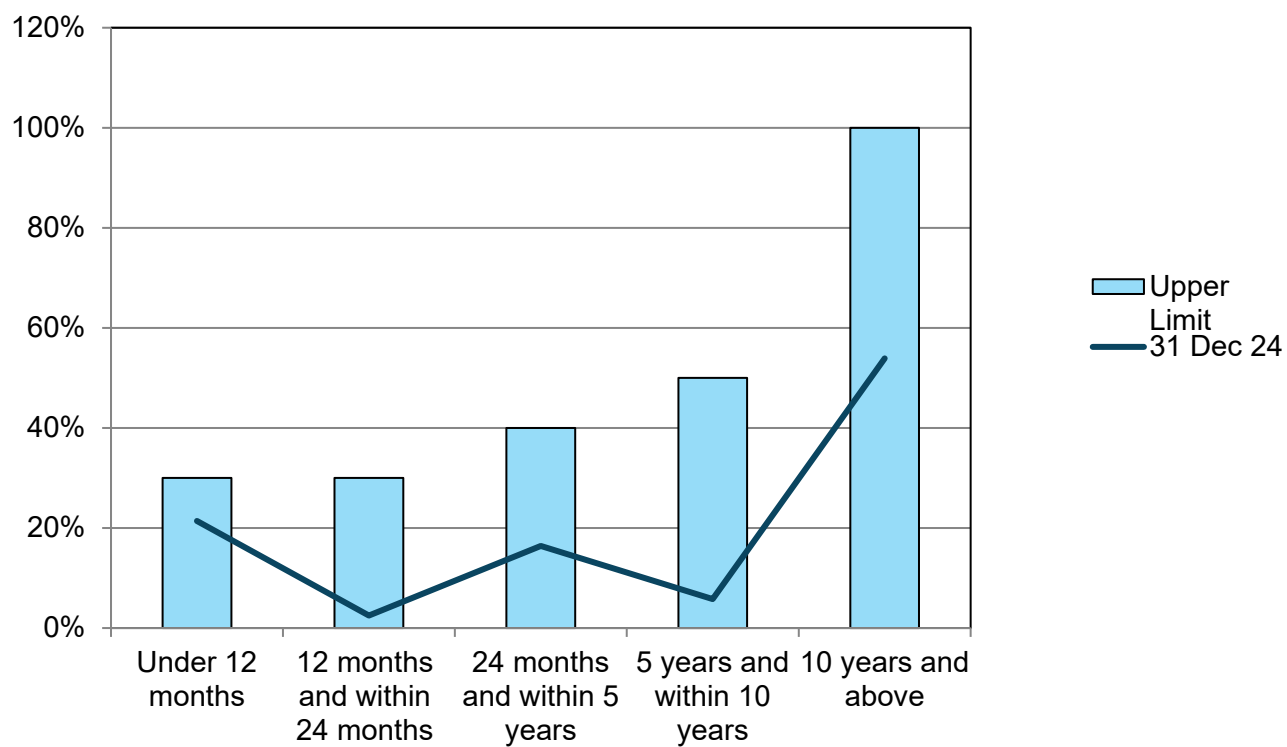
Treasury Management - Prudential Indicators

The Council has complied with all the prudential limits set in the TMSS 2024/25 during the quarter to 31 December 2024.

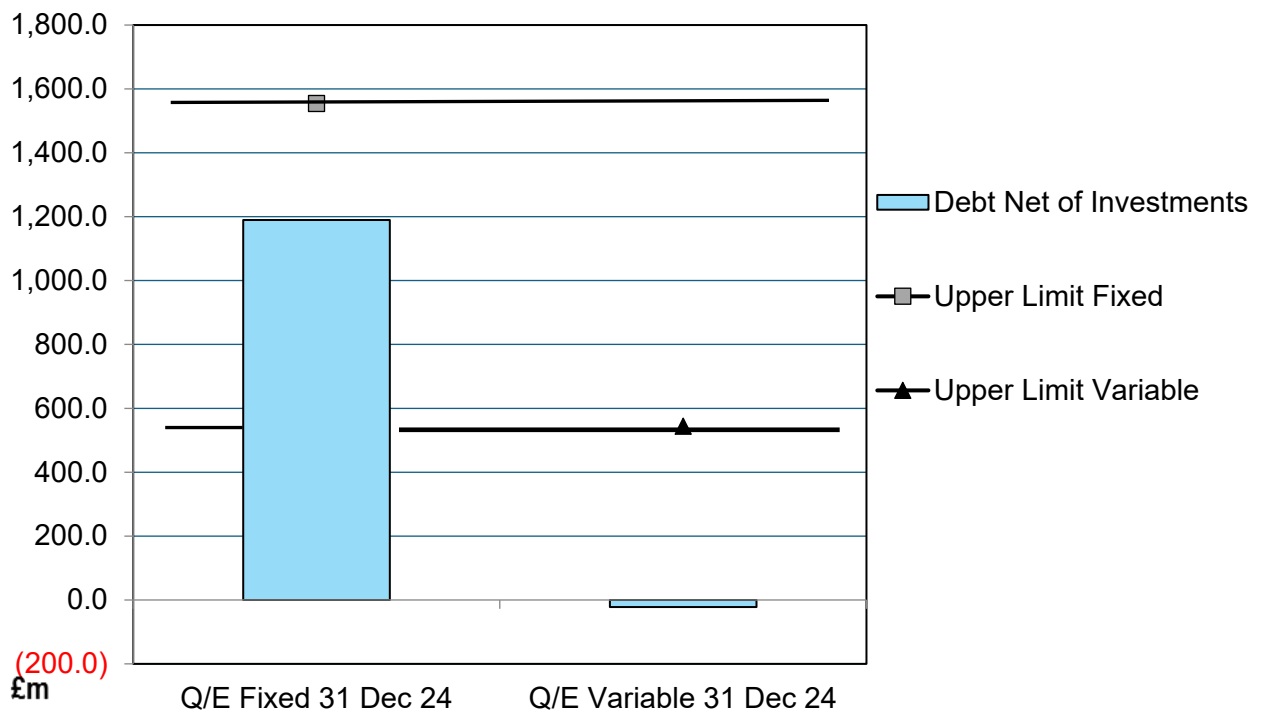
External Debt



Maturity Structure of Fixed Rate Borrowing



Debt Net of Investments



Appendix 3

List of Counterparties

The following table is a list of current counterparties used, amount deposited with each counterparty and the MUFG credit rating as at 31 December 2024.

Counterparty	Amount £m	Counter - party limit £m	MUFG credit rating Dec 24	Total Amount £m	Deposit Type	Rate Dec 24 %	FTD Duration
Clydesdale** Bank	23.5	20.0	Red 6 Mths	23.5	Call	5.00	N/A
	0.0				CMA	1.35	
Insight Investments MMF	0.4	20.0	AAA rated	0.4	Call	4.80	N/A
Northern Trust MMF	0.1	20.0	AAA rated	0.1	Call	4.73	N/A
Aberdeen Liquidity MMF	20.0	20.0	AAA rated	20.0	Call	4.78	N/A
BlackRock ICS MMF	14.5	20.0	AAA rated	14.5	Call	4.78	N/A
Total Deposits	58.5			58.5			

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