

The Highland Council

Resources Committee – 25 February 2015

Agenda Item	7(a)
Report No	RES/04/15

Treasury Management - Summary of Transactions

October 2014, November 2014 and December 2014

Report by Director of Finance

Summary

This report on the treasury management transactions undertaken within the period is submitted to Committee in compliance with CIPFA's Code of Practice on Treasury Management and the Council's approved Financial Regulations.

This report is produced in support of the Council's corporate governance process, which in turn is designed to support/augment the Council's overall/corporate delivery of all its obligations in terms of the Single Outcome Agreement.

1. Background

- 1.1 This report sets out treasury management transactions during the period, reflecting activity undertaken to manage the Council's cash flows, and borrowing to fund capital expenditure.
- 1.2 In managing the Council's long term borrowing requirement, the Finance Service will look to take external Public Works Loan Board (PWLB) borrowing at the most opportune time, to take advantage of the lowest interest rates available.
- 1.3 In managing the Council's cash flow the Finance Service will also consider short-term borrowing opportunities, and during the period temporary loans were taken, to take advantage of low interest rates and meet the Council's short-term cashflow requirements.
- 1.4 There were no long-term repayments made or borrowing undertaken during the period 01 October 14 to 31 December 2014.
- 1.5 There were small amounts of temporary borrowing undertaken in October, November and December in order to manage cash flows and in anticipation of short term rates rising towards the Christmas period.
- 1.6 It should be noted that the average interest rate on deposits continues to be low due to the low rates on call accounts and money market funds attributable to the current market environment.

- 1.7 When placing temporary deposits (lending) the Council uses a creditworthiness matrix provided by Capita Treasury Services Ltd to assess the risks involved in lending to individual counterparties. The Council's lending policy is constantly monitored in conjunction with the matrix. This affords a balance of operational flexibility and risk awareness in managing the Council's temporary investments.
- 1.8 Details of the Council's investment policy, the credit rating of these counterparties, and deposits held as at 31 December, are at **Appendix 1**.
- 1.9 The Council's Treasury Management Policy is regularly reviewed.

2. Implications

- 2.1 The resource implications are covered in the attached tables. There are no Legal; Equalities; Climate Change/Carbon Clever; Risk; Gaelic and Rural implications relating to this report.

3. Recommendation

It is recommended that the Committee consider the Treasury Management Summary of Transactions reports.

Please see attached Tables

Designation: Director of Finance

Date: 27 January 2015

Author: David Robertson, Head of Corporate Finance

Tel No: 01463 702 302

Background Papers: Loan Documentation, Financial Ledger

Attachments: Appendix 1 - Credit Worthiness Policy and Assessment

Treasury Management - Summary of Transactions for the Month to 31 October 2014

Type of Borrowing	Outstanding debt at start of month £	Raised £	Repaid £	Outstanding debt at end of month £	Average Interest Rate	
					beg %	end%
Public Works Loan Board	606,230,650	0	0	606,230,650	4.98	4.98
Mortgage Bonds	118,056,000	0	0	118,056,000	4.87	4.87
Temporary Loans	46,000,000	7,000,000	(8,000,000)	45,000,000	0.46	0.44
Bank Balance	(210,271)	114,981	0	(95,290)		
GROSS EXTERNAL BORROWING	770,076,379	7,114,981	(8,000,000)	769,191,360		
<i>Temporary Deposits</i>	(105,848,500)	(52,504,500)	50,027,600	(108,325,400)	0.52	0.52
NET EXTERNAL BORROWING	664,227,879	(45,389,519)	42,027,600	660,865,960		
Total average					4.89	4.70
Budgeted LF rate 2013/14					4.94	

Borrowing / Lending internal parameters as per approved Treasury Management Practices

	Actual %	Approved Max%
Short term borrowing (net of investments) as % of the Council's outstanding long term debt	(8.76)	25.00
Borrowing at variable rates of interest as % of the Council's total outstanding loan debt	6.43	35.00

Treasury Management - Summary of Transactions for the Month to 30 November 2014

Type of Borrowing	Outstanding debt at start of month £	Raised £	Repaid £	Outstanding debt at end of month £	Average Interest Rate	
					beg %	end%
Public Works Loan Board	606,230,650	0	0	606,230,650	4.98	4.98
Mortgage Bonds	118,056,000	0	0	118,056,000	4.87	4.87
Temporary Loans	45,000,000	1,000,000	(1,000,000)	45,000,000	0.44	0.44
Bank Balance	(95,290)	33,000	0	(62,290)		
GROSS EXTERNAL BORROWING	769,191,360	1,033,000	(1,000,000)	769,224,360		
<i>Temporary Deposits</i>	<i>(108,325,400)</i>	<i>(57,278,700)</i>	77,399,000	<i>(88,205,100)</i>	0.52	0.53
NET EXTERNAL BORROWING	660,865,960	(56,245,700)	76,399,000	681,019,260		
Total average					4.70	4.70
Budgeted LF rate 2014/15					4.94	

Borrowing / Lending internal parameters as per approved Treasury Management Practices **Actual %** **Approved Max%**

Short term borrowing (net of investments) as % of the Council's outstanding long term debt	(5.97)	25.00
Borrowing at variable rates of interest as % of the Council's total outstanding loan debt	9.08	35.00

Treasury Management - Summary of Transactions for the Month to 31 December 2014

Type of Borrowing	Outstanding debt at start of month £	Raised £	Repaid £	Outstanding debt at end of month £	Average Interest Rate	
					beg %	end%
Public Works Loan Board	606,230,650	0	0	606,230,650	4.98	4.98
Mortgage Bonds	118,056,000	0	0	118,056,000	4.87	4.87
Temporary Loans	45,000,000	2,000,000	(3,000,000)	44,000,000	0.44	0.45
Bank Balance	(62,290)	1,573	0	(60,717)		
GROSS EXTERNAL BORROWING	769,224,360	2,001,573	(3,000,000)	768,225,933		
<i>Temporary Deposits</i>	<i>(88,205,100)</i>	<i>(66,206,300)</i>	57,341,000	<i>(97,070,400)</i>	0.53	0.52
NET EXTERNAL BORROWING	681,019,260	(64,204,727)	54,341,000	671,155,533		
Total average					4.70	4.70
Budgeted LF rate 2014/15					4.94	
Borrowing / Lending internal parameters as per approved Treasury Management Practices					Actual %	Approved Max%
Short term borrowing (net of investments) as % of the Council's outstanding long term debt					(7.34)	25.00
Borrowing at variable rates of interest as % of the Council's total outstanding loan debt					7.40	35.00

**The Highland Council - Finance, Housing and Resources Committee
Treasury Management - Prudential Indicators**

a) External Debt

Month	Authorised Limit*	Operational Boundary**	Month End	Min Position during month	Max Position during month
31 October 2014	£916.5m	£854.5m	£769.3m	£769.3m	£772.3m
30 November 2014	£916.5m	£854.5m	£769.3m	£768.3m	£769.3m
31 December 2014	£916.5m	£854.5m	£768.3m	£768.3m	£769.8m

* **The Authorised Limit** represents an upper limit of borrowing that could be afforded in the short term but may not be sustainable over the longer term. This limit includes a risk assessment of exceptional events taking into account the demands of revenue and capital cash flows. The Authorised Limit gauges events that may occur over and above those transactions which have been included in the Operational Boundary. The limits effective from 01/04/14 are set out in the Treasury Management Strategy Statement 2014/15 (approved by Council 13/03/14).

** **The Operational Boundary** represents an estimate of the most likely, prudent, but not worst case scenario and provides a parameter against which day to day treasury management activity can be monitored.

b) Debt Net of Investments

Month	Upper Limit Fixed	Upper Limit Variable	Month End Fixed	Month End Variable
31 October 2014	£825.5m	£288.9m	£618.4m	£42.5m
30 November 2014	£825.5m	£288.9m	£619.2m	£61.8m
31 December 2014	£825.5m	£288.9m	£621.5m	£49.7m

c) Maturity Structure of Fixed Rate Borrowing

Fixed Rate Borrowing	Under 12 months	12 months and within 24 months	24 months and within 5 years	5 years and within 10 years	10 years and above
Upper Limit	30%	30%	30%	50%	100%
Lower Limit	N/A	N/A	N/A	N/A	25%
As at 31 October 2014	8.2%	3.2%	11.3%	11.4%	65.9%
As at 30 November 2014	8.2%	3.2%	11.3%	11.4%	65.9%
As at 31 December 2014	8.1%	3.2%	11.3%	11.4%	66.0%

Appendix 1

Credit worthiness policy and assessment

This Council uses the creditworthiness service provided by Capita Treasury Services. This service employs a sophisticated modelling approach with credit ratings from all three rating agencies - Fitch, Moodys and Standard and Poors. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies
- Credit Default Swaps (CDS) spreads to give early warning of likely changes in credit ratings
- sovereign ratings to select counterparties from only the most creditworthy countries

This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are also used by the Council to determine the duration for investments.

- All credit ratings are monitored from a weekly list which can be updated daily by Capita. The Council is alerted to changes to ratings of all three agencies as these occur through its use of the Capita creditworthiness service.
- If a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, immediate consideration will be given to whether funds should be withdrawn from this counterparty and the timescale for doing this.
- In addition to the use of Credit Ratings the Council will be advised of information in movements in Credit Default Swap against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Councils lending list.

Based on the Capita approach, the Council will therefore use counterparties within the following durational bands:

Purple	2 years
Blue	1 year (only applies to nationalised or semi nationalised UK Banks)
Orange	1 year
Red	6 months
Green	100 days
No Colour	Not to be used

Sole reliance will not be placed on the use of this external service. In addition the Council will also use market data and market information, information on government support for banks and the credit ratings of that government support.

In relation to Money Market Funds, the Council will use Capita's weekly investment monitor, and other regular updates, to ensure its MMF counter-parties meet the minimum credit criteria described in the table above.

As set out within the Prudential Indicators, a limit is set on the value of Treasury Investments which can be invested for more than 364 days. The limit is £20m, which represents the maximum sum invested for longer than 364 days, though the period of investment must be decided using Capita credit ratings and maximum limits in permitted investments.

Stage 3 – Counter-party Limits

The limits described below apply to the Council's treasury management operations. Separate limits apply for the Pension Fund, with Highland Council limits relating to all operations excluding the Pension Fund.

Due to market volatility in treasury management investments and varying levels of investment it is possible that at any time in the year, one category of investment could represent 100% of the portfolio although it is likely that investments will carry greater diversification than this.

No more than £15m can be invested with any single counterparty, with the exception of the nationalised or semi nationalised UK banks where no more than £25m can be invested in each bank.

The Council will place overnight and call deposits with the Council's bankers irrespective of credit rating. The limit on placing call deposits with the Council's bankers is currently £10m for the Highland Council bank accounts.

The Highland Council Pension Fund will place overnight and call deposits with the Council's bankers irrespective of credit rating. The limit on placing call deposits with the Council's bankers is currently £10m. The Pension Fund may also utilise other bank facilities, with a £10m limit applying to each.

List of Counterparties, counterparty limit and credit rating

The following table is a list of current counterparties used, the Capita credit rating as at 31 December 2014 and amounts deposited.

Counterparty	Deposit Type*	Duration Days	Capita credit rating (Dec 2014)	Amount £	Rate % (Dec 2014)	Total amount (£)	Counterparty limit (£)
Nationwide Building Society	FTD	57	Red - 6 months	4,700,000	0.45	6,700,000	15,000,000
	FTD	73		2,000,000	0.48		
Bank of Scotland	Call	N/a	Blue -12 months	200,000	0.40	24,200,000	25,000,000
	FTD	232		4,000,000	0.70		
	FTD	183		5,000,000	0.70		
	FTD	180		10,000,000	0.70		
	FTD	148		5,000,000	0.57		
Clydesdale Bank	Call	N/a	No colour - zero	10,770,400	0.40	10,770,400	10,000,000
	CMA	Overnight		0	0.10	0	N/a
Royal Bank of Scotland	Call	N/a	Blue -12 months	300,000	0.25	300,000	25,000,000
Barclays	Call	N/a	Red - 6 months	15,000,000	0.50	15,000,000	15,000,000
Santander	Call	N/a	Red - 6 months	5,400,000	0.40	5,500,000	15,000,000
	30 DN	N/a		100,000	0.45		
Goldman Sachs	FTD	98	Green - 100 days	5,000,000	0.52	15,000,000	15,000,000
	FTD	99		10,000,000	0.48		
Ignis Asset Management	Call	N/a	Triple A rated	15,000,000	0.47	15,000,000	15,000,000
Insight Investments	Call	N/a	Triple A rated	4,600,000	0.43	4,600,000	15,000,000
TOTAL DEPOSITS						97,070,400	

* Deposit Type – Fixed Term Deposit (FTD), Cash Management Account (CMA)

** As stated in the Treasury Management Strategy statement for unavoidable short term operational reasons, limits are occasionally breached and this is communicated to management immediately. This was the case on the 31 December when due to receipts over the festive period the limit with the Clydesdale was breached marginally.