

Agenda Item	<b>9b</b>
Report No	<b>RES/26/23</b>

## HIGHLAND COUNCIL

**Committee:** Corporate Resources Committee

**Date:** 06 Sep 2023

**Report Title:** Treasury Management – Summary of Transactions  
Quarter ended 30 June 2023

**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 consider the Treasury Management Summary of Transactions report for the period from 1 April 2023 to 30 June 2023.

### 3. Implications

- 3.1 Resource and Risk – the policy of using short-term borrowing currently is at a lower cost than longer term borrowing, but there are associated risks such as rates increasing, and/or appropriate borrowing may not be available when required.
- 3.2 There are no Legal, 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 is to continue to use short-term borrowing to fund the capital programme but consider long-term borrowing to replace maturities to manage refinancing risks.

In the TMSS, reprofiled programme capital expenditure per the 2 March Council report, has been used to estimate future borrowing. The Council Budget 2023/24 report to Council also recommended approval of a Loans Fund Principal Repayment 'holiday' in 2023 which is also covered in the report (sections 7.3 to 7.5 and Appendix 11).

Given the status of the capital programme, the intent to review that programme during 2023, and the context as outlined above in relation to unaffordability of the current capital programme, there may be a need for further revision to the TMSS as a result during the course of 2023.

- 4.2 Since the increase in the bank rate on 16 December 2021 to 0.25%, the Monetary Policy Committee has voted in favour of further Bank Rate increases to try to curb inflation, as follows:

- 03 March 2022 to 0.50%
- 17 March 2022 to 0.75%
- 05 May 2022 to 1.00%
- 16 June 2022 to 1.25%
- 04 August 2022 to 1.75%
- 22 September 2022 to 2.25%
- 03 November 2022 to 3.00%
- 15 December 2022 to 3.50%
- 02 February 2023 to 4.00%
- 23 March 2023 to 4.25%
- 11 May 2023 to 4.50%
- 22 June 2023 to 5.00%

Temporary borrowing and deposit interest rates continue to rise on the back of Bank Rate increases with less volatility in rates in between bank rate rises and temporary borrowing is generally available in the Market.

#### **5. Borrowing undertaken and repayments made**

- 5.1 There is continuing market uncertainty influenced by both domestic and geopolitical factors. The Bank Rate increased to 5.25% on 3 August 2023 and the Council's Treasury Management advisor, Link, currently predicts it will peak at 5.50% this year before starting to reduce from June 2024.
- 5.2 For the quarter ending 30 June 2023 there was £45.0m of temporary borrowing undertaken and temporary loans of £40.0m were repaid. Balances and Average rates are shown below.

Quarter end	Balance	Average Temporary Loan rate (fixed)%
June 2023	133.0	3.68
Mar 2023	128.0	3.39
June 2022	96.0	0.51

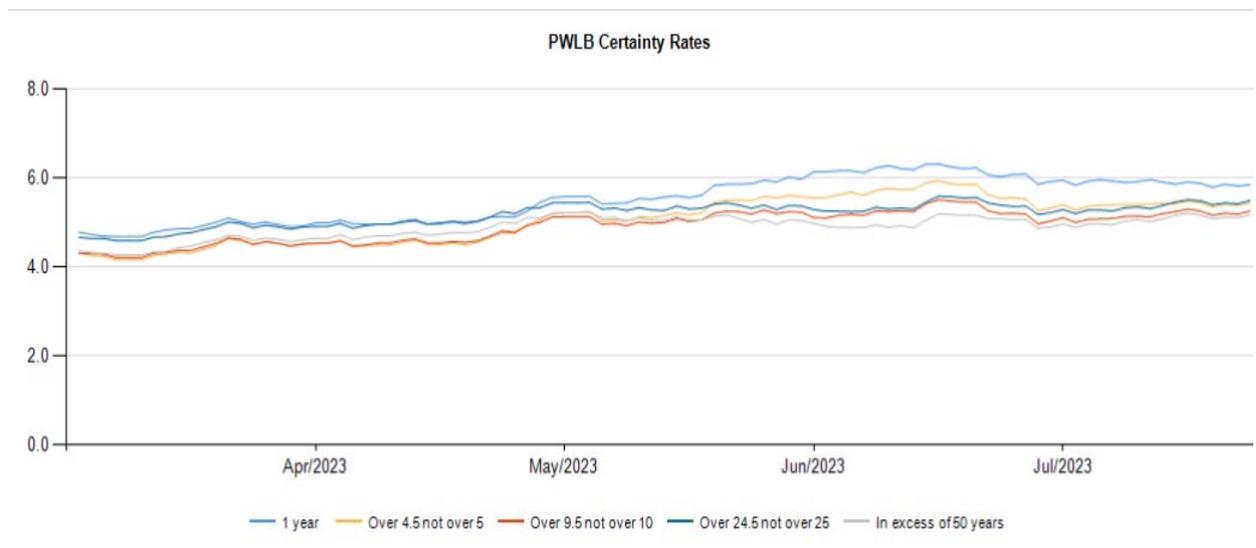
Notice was served on the £10.0m variable rate loan lined to Bank Rate (4.50% at June 23) and it will be repaid on 04 September 2023.

- 5.3 As at 31 March 2023, the total of Public Works Loan Board (PWLB) loans was £779.6m (£779.6m at 31 March 23) and long term Market loans totalled £129.8m (£129.8m at 31 March 2023).

There were no PWLB or Long-Term Market repayments made during the period from 1 March 2023 to 30 June 2023. There was no new PWLB or Long-Term Market borrowing undertaken, and the strategy is to continue to use short-term borrowing while long term borrowing rates remain at high levels.

- 5.4 The PWLB rates for the financial year 2023/24 to July 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)
- Local Infrastructure Rate is gilt plus 60bps (0.6%)(G+60bps)



- 5.5 Following the UK Government Budget of March 2023, from 15 June 2023, a preferential HRA certainty rate was reintroduced (HRA certainty rate was previously in place from March 2020 to November 2020) which will be available for 1 year with its continuation after that period subject to review. The HRA certainty rate is a reduction of 0.40% to the PWLB Standard Rate and the authority borrowing must provide a return in advance of the borrowing to state that these funds will be used to build or acquire new homes to increase the authority's HRA Housing stock.

## 6. Deposits

- 6.1 Cash flow, uncertainty, and the need to maintain liquidity, has meant the Council has held the majority of cash balances in Money Market Funds (MMFs), this is in line with the approach being taken by other Local Authorities. Due to Bank Rate increases, rates on Money Market Fund (MMF) investments have increased and continue to do so.
- 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 as at 30 June 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: Head of Corporate Finance

Date: 11 August 2023

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/81326/15_treasury_management_strategy_statement)

[https://www.highland.gov.uk/download/meetings/id/81704/6\\_treasury\\_management\\_-\\_summary\\_of\\_transactions](https://www.highland.gov.uk/download/meetings/id/81704/6_treasury_management_-_summary_of_transactions)

## Appendix 1

### Treasury Management - Summary of Transactions for the Quarter to 30 June 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	
					31 Mar 23 %	30 Jun 23 %
Public Works Loan Board	779.6	0	0	779.6	3.78	3.78
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)	128.0	45.0	(40.0)	133.0	3.39	3.68
Variable Temporary Loan	10.0	0	0	10.0	4.25	4.50
Bank Balance	(0.1)	0	0	0		
<b>GROSS EXTERNAL BORROWING</b>	<b>1,047.3</b>	<b>45.0</b>	<b>(40.0)</b>	<b>1,052.4</b>		
<i>Temporary Deposits</i>	<i>(62.8)</i>	<i>(206.8)</i>	186.1	<i>(83.6)</i>	4.12	4.45
<b>NET EXTERNAL BORROWING</b>	<b>984.5</b>	<b>(161.8)</b>	146.1	<b>968.8</b>		
Total loan average					3.81	3.88

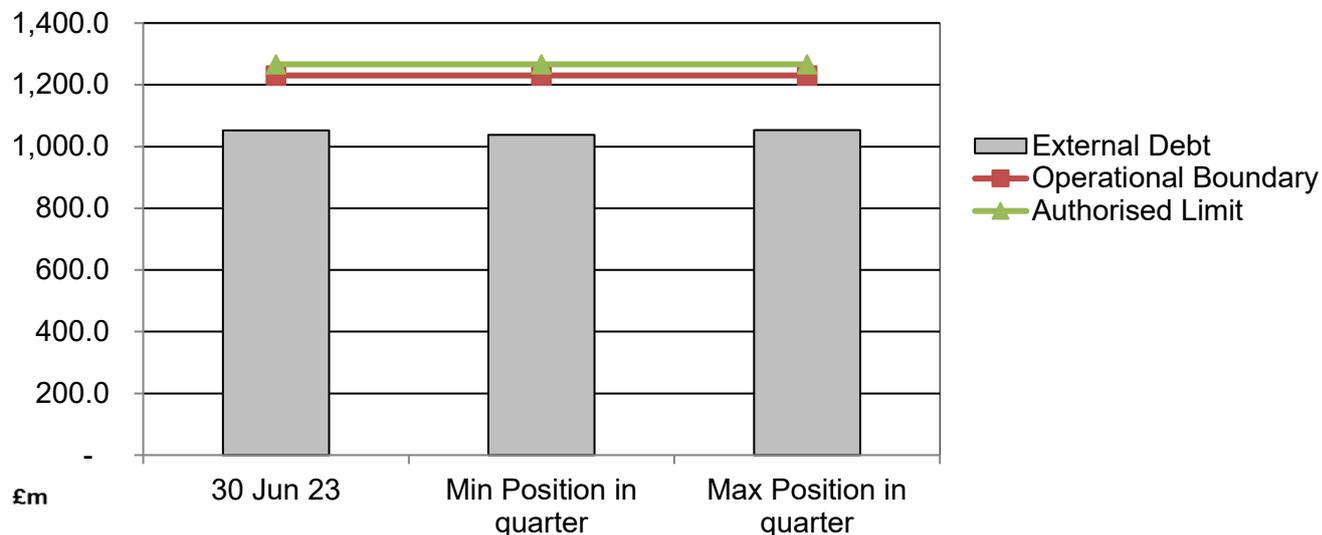
<b><u>Borrowing / Lending internal parameters as per approved Treasury Management Practices</u></b>	<b><u>Actual</u></b> %	<b><u>Approved Max</u></b> %
Short-term borrowing as % of the Council's total outstanding debt	12.3	25.0
Borrowing at variable rates of interest as % of the Council's total outstanding loan debt	3.5	35.0

## Appendix 2

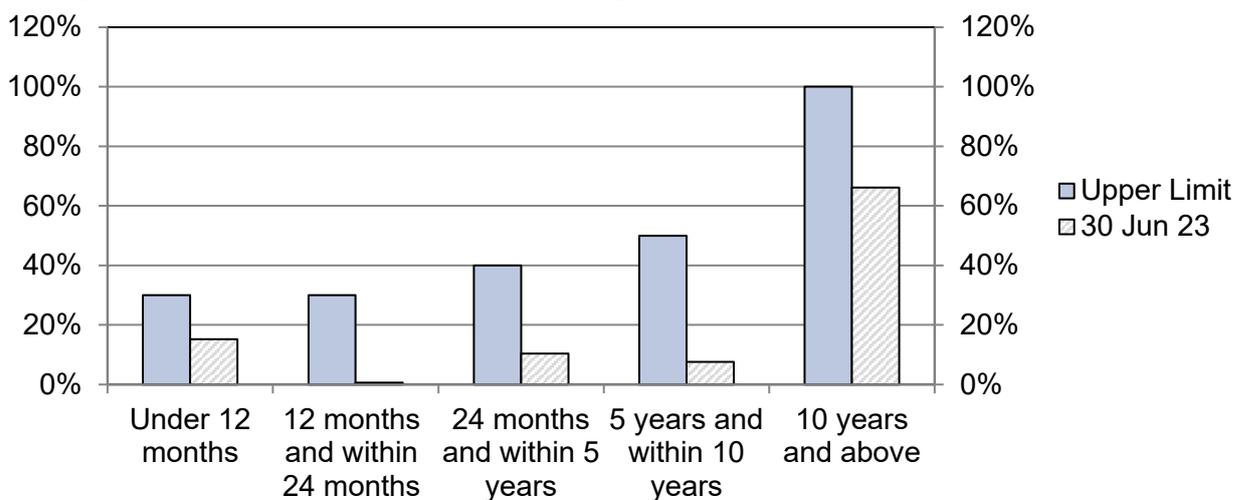
### Treasury Management - Prudential Indicators

The Council has complied with all the prudential limits set in the TMSS 2023/24 during the quarter to 30 June 2023.

#### External Debt

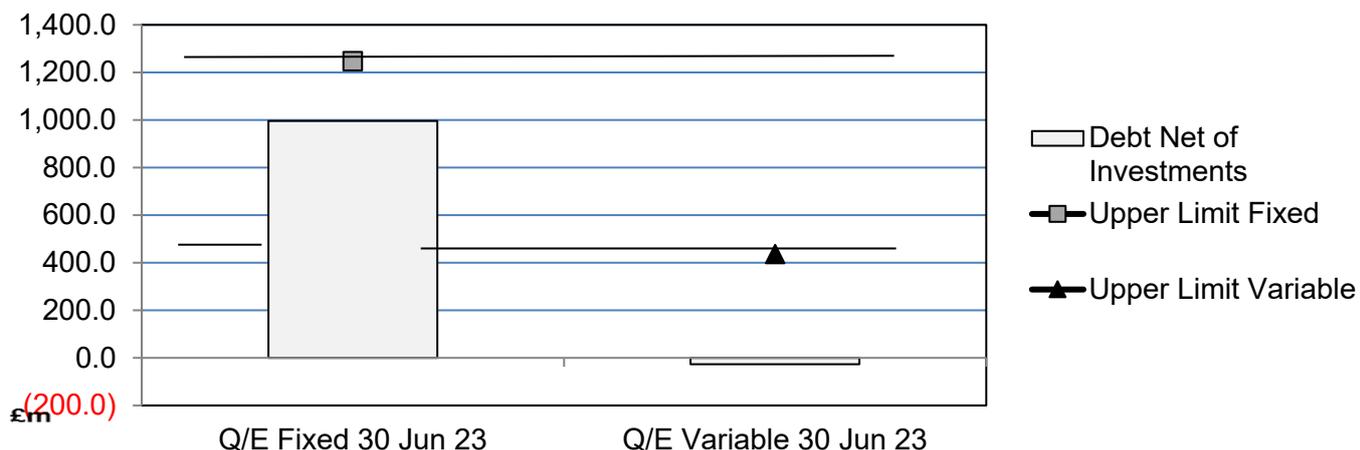


#### Maturity Structure of Fixed Rate Borrowing



#### 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 30 June 2023.

Counterparty	Total amount £m	Counter-party limit £m	Link credit rating Jun 23	Amount £m	Deposit Type	Rate Jun 23 %	Duration
Clydesdale** Bank	19.9	20.0	Green 100 Days	20.5	Call	5.00	N/A
	0.6				CMA	5.00	
Insight Investments MMF	11.0	20.0	AAA rated	11.0	Call	4.75	N/A
Northern Trust MMF	13.9	20.0	AAA rated	13.9	Call	4.73	N/A
Aberdeen Liquidity MMF	18.9	20.0	AAA rated	18.9	Call	4.82	N/A
BlackRock ICS MMF	9.1	20.0	AAA rated	9.1	Call	4.75	N/A
DMADF	10.0	unlimited	n/a	10.0	FTD	4.61	23 days
<b>Total Deposits</b>	<b>83.4</b>			<b>83.4</b>			

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