Wiltshire Council

Cabinet

14 March 2017

Subject:	**Report on Treasury Management Strategy 2016/2017 Third Quarter ended 31 December 2016**
Cabinet member:	**Councillor Dick Tonge - Finance**
Key Decision:	**No**

Executive Summary

The Council has adopted a Treasury Management Strategy and an Annual Investment Strategy (AIS) for 2016/2017 at its meeting on 23 February 2016.

In addition to an Annual Report, the policy requires quarterly reports to review the Treasury Management Strategy (TMS). This is the third quarterly report of 2016/2017 and covers the period from 1 April 2016 to 31 December 2016.

Proposal

The Cabinet is asked to note that the contents of this report are in line with the Treasury Management Strategy.

Reasons for Proposal

To give members an opportunity to consider the performance of the Council in the period to the end of the quarter against the parameters set out in the approved Treasury Management Strategy for 2016/2017.

Carolyn Godfrey – Corporate Director

Wiltshire Council

Cabinet

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Key Decision:	**No**

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1. Background & Purpose of Report

1.1 The Council adopted a Treasury Management Strategy for 2016/2017 at its meeting on 23 February 2016, incorporating Prudential Indicators (PrIs), Treasury Management Indicators (TrIs) and an Annual Investment Strategy, in accordance with the Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

1.2 The Strategy states that, in addition to an Annual Treasury Report reviewing the year as a whole, quarterly reports would be submitted to Cabinet reviewing the Treasury Management Strategy. This report covers the third quarter of 2016/2017, ended 31 December 2016.

2. Main Considerations for the Cabinet

2.1 This report reviews management actions in relation to:

a) the PrIs, TrIs originally set for the year and the position at the 31 December 2016;

b) other treasury management actions during the period; and

c) the approved Annual Investment Strategy.

Review of Prudential and Treasury Indicators and Treasury Management Strategy for 2016/2017

2.2 A full detailed listing of the indicators required by the CIPFA Prudential Code, Treasury Management Code and Treasury Management Guidance Notes is given in Appendix 1.

Other Debt Management Issues

2.3 Debt Rescheduling

Opportunities to reschedule PWLB debt are significantly constrained by the high level of premiums payable for early repayment. The position is continually monitored and any opportunities to reschedule cost effectively will be considered, should they arise. However, unless the PWLB change policy regarding early repayment, debt rescheduling is currently very unlikely.

2.4 Cash Surpluses and Deficits

Any short term cash surpluses or deficits have been managed through temporary deposits or loans, respectively. Temporary deposits outstanding at 31 December 2016 amounted to £77.572 million, as detailed in Appendix 3.

2.5 Icelandic Banks

No change.

2.6 Longer Term Cash Balances

2.6.1 Interest rate movements in the period have not provided many opportunities for an increased return by longer term investment of the more permanent cash surpluses, such as reserves and balances. However, the availability of any appropriate longer term investment opportunities is continually monitored, such as “special tranche rates” that are offered by ‘Government backed’ banks. The rates available from these types of investments may now be reduced as Lloyds are and RBS will eventually no longer be partially Government owned, as the Government’s programme of the sale of shares in the banks progresses. This has already led to, in the case of Lloyds, and will lead to, in the case of RBS, a change in the credit rating level and, consequently, the recommended duration for deposits, thus affecting the interest rate available to the Council. Lloyds Bank continues to offer “special tranche rates” and has only, currently, been affected in terms of duration.

2.6.2 Rates have remained low and, following the referendum and the subsequent fall in the Bank Rate, interest rates available have decreased, although the “special tranche rate” investments offered, particularly, by Lloyds Bank have remained relatively competitive. Details of investments outstanding are shown in Appendix 3.

Review of Investment Strategy

2.7 The Treasury Management Strategy Statement (TMSS) for 2016/2017, which includes the Annual Investment Strategy, was approved by the Council on 23 February 2016. It sets out the Council’s investment priorities as being:

a) Security of capital;

b) Liquidity; and

c) Yield.

2.8 The Council will also aim to achieve the optimum return (yield) on investments commensurate with proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs but also to seek out value available in higher rates in periods up to 12 months with highly credit rated financial institutions, using Capita Treasury Solution's suggested creditworthiness approach, including sovereign credit rating and Credit Default Swaps (CDS) overlay information provided by Capita.

2.9 Following the EU Referendum decision to leave the EU, the Council's Investment Strategy has been reviewed and there are no issues for the Council as a consequence of the financial effects of the decision at this stage. The impact of any further potential developments/effects on the Strategy following the decision to leave the EU will be continually reviewed.

2.10 All investments have been conducted within the agreed Annual Investment Strategy and made only to authorised lenders within the Council's high credit quality policy.

2.11 Credit ratings are incorporated within the approved Investment Strategy as detailed within the Treasury Management Strategy 2016/2017 and the current ratings have been shown against the deposits outstanding in Appendix 3.

3. Overview and Scrutiny Engagement

3.1 The Financial Planning Task Group sits under the OS Management Committee and leads on scrutiny of the budget throughout the year and during the budget setting process. The task group has received a briefing on the purpose of the Treasury Management Strategy overall, but does not scrutinise each quarterly report.

4. Safeguarding Implications

4.1 None have been identified as arising directly from this report.

5. Public Health Implications

5.1 None have been identified as arising directly from this report.

6. Corporate Procurement Implications

6.1 None have been identified as arising directly from this report.

7. Equalities Impact of the Proposal

7.1 None have been identified as arising directly from this report.

8. Environmental and Climate Change Considerations

8.1 None have been identified as arising directly from this report.

9. Risks Assessment and Financial Implications

9.1 All investment has been at fixed rates during the period. The Council's current average interest rate on long term debt is 3.77%, which compares favourably with similar rates of other UK local authorities.

9.2 The primary management risks to which the Council is exposed are adverse movements in interest rates and the credit risk of counterparties.

9.3 Investment counterparty[1] risk is controlled by assessing and monitoring the credit risk of borrowers as authorised by the Annual Investment Strategy.

10. Legal Implications

10.1 None have been identified as arising directly from this Report.

11. Options Considered

11.1 The availability of any longer term investment opportunities, such as those offered by "special tranche rates", is continually monitored.

11.2 Also any options available to provide savings from rescheduling long term borrowing are continually assessed in liaison with our treasury advisers.

12. Conclusion

12.1 Cabinet is asked to note the report.

Michael Hudson
Associate Director, Finance.

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Background Papers

The following unpublished documents have been relied on in the preparation of this Report: NONE

Appendices

Appendix 1 Prudential and Treasury Indicators for 2016/2017, 2017/2018 & 2018/2019
Appendix 2 Summary of Long Term Borrowing 1 April 2016 – 31 December 2016
Appendix 3 Summary of Temporary Loans and Deposits 1 April 2016 – 31 December 2016

[1] A Counterparty is a term most commonly used in the financial services industry to describe a legal entity, unincorporated entity or collection of entities (e.g. lender/borrower) to which an exposure to financial risk might exist.

APPENDIX 1

Prudential and Treasury Indicators for 2016/2017, 2017/2018 & 2018/2019

Prudential Indicators

PrI 1 – Capital Expenditure

1. The table below shows the revised figures for capital expenditure based on the current approved capital budget.

	2015/2016 Actual Outturn £million	**2016/2017 Original Estimate £million**	**2016/2017 Revised Estimate £million**	**2016/2017 Actual to 31/12/16 £million**
General Fund	101.6	111.8	92.1	44.0
HRA	13.3	42.5	23.1	12.2

2. The (revised) estimate and actual to date for 2016/2017 has been amended to reflect the most up to date capital budget and expenditure position.

3. The Capital Programme is monitored closely throughout the year and progress on the programme is reported to the Cabinet Capital Asset Committee (CCAC). The Month 9 2016/2017 report (as at 31 December 2016) was taken to CCAC in February 2017.

4. PrI 2 – Ratio of Financing Costs to Net Revenue Stream

	2015/2016 Actual Outturn	**2016/2017 Original Estimate**	**2016/2017 Revised Estimate**
General Fund	7.0%	8.1%	7.3%
Housing Revenue Account	14.9%	15.2%	15.0%

5. The General Fund revised estimate for 2016/2017 is lower than the original estimate mainly due to lower than expected financing costs (including lower interest payments and principal charges (MRP)) offset slightly by lower interest receivable as a result of lower cash balances, together with a reduction in interest rates.

6. PrI 3 – Estimate of Incremental Impact of Capital Investment Decisions on the Council Tax

   This indicator is only relevant at budget setting time and for 2016/2017 was calculated as being £-17.81.

<u>APPENDIX 1</u>

Prudential and Treasury Indicators for 2016/2017, 2017/2018 & 2018/2019

7. <u>PrI 4 – Gross Borrowing compared to Capital Financing Requirement (CFR)</u>

	2015/2016 Actual Outturn £million	**2016/2017 Original Estimate £million**	**2016/2017 Revised Estimate £million**
CFR – General Fund	394.7	439.1	413.7
CFR – HRA	122.6	122.6	123.3
Gross Borrowing – General Fund	231.1	314.1	262.9
Gross Borrowing – HRA	118.8	118.8	118.8
CFR not funded by gross borrowing – General Fund	**163.6**	**125.0**	**150.8**
CFR not funded by gross borrowing – HRA	**3.8**	**3.8**	**4.5**

8. PrI 4 measures the so called “Golden Rule” which ensures that over the medium term net borrowing is only for capital purposes.

9. CFR not funded by gross borrowing represents capital expenditure met by internal borrowing, i.e. funded from the Council’s own funds, such as reserves and balances and working capital (an accounting term for the difference, at a point in time, between what the Council owes and what is owed to it).

10. Internal borrowing is cheaper than external borrowing, however, the ability to borrow internally will depend upon the sufficiency of reserves, balances and working capital. The sufficiency needs to be monitored and projections carried out to indicate where any adverse movements are expected, that could jeopardise the Council’s cash flow position, making it necessary to replace internal borrowing with external borrowing.

11. A continual review of the capital programme over the reporting period has led to a change in the 2016/2017 revised estimate when compared with the original estimate (which was prepared at budget setting time in February 2016 prior to the beginning of the financial year).

12. The revised estimate for General Fund CFR and gross borrowing is based on the revised 2016/2017 Capital Programme, which currently stands at £115.234 million.

13. <u>PrI 5 – Compliance with the CIPFA Code of Practice for Treasury Management in the Public Services</u>

    All actions have been compliant with the CIPFA Code of Practice.

APPENDIX 1

Prudential and Treasury Indicators for 2016/2017, 2017/2018 & 2018/2019

Treasury Management Indicators within the Prudential Code

14. The Operational Boundary and Authorised Limit, as approved by Council in February 2016 as part of the Treasury Management Strategy, are detailed below. These are control limits and do not compare with actual borrowing figures. Capital funding requirements are not automatically taken as loans and may be funded from cash balances.

15. TrI 1 – Authorised Limit for External Debt

Authorised Limit	**2016/2017 £million**	**2017/2018 £million**	**2018/2019 £million**
Borrowing – General Fund	471.7	483.0	466.6
Borrowing – HRA	123.2	123.2	123.2
Other Long Term Liabilities	0.2	0.2	0.2
TOTAL	**595.1**	**606.4**	**590.0**

The External Debt limit includes a margin above the Operational Boundary to allow for any unusual or unpredicted cash movements. The limit has not been exceeded in the reporting period.

16. TrI 2 – Operational Boundary for External Debt

Operational Boundary	**2016/2017 £million**	**2017/2018 £million**	**2018/2019 £million**
Borrowing – General Fund	460.2	471.2	455.2
Borrowing – HRA	123.2	123.2	123.2
Other Long Term Liabilities	0.2	0.2	0.2
TOTAL	**583.6**	**594.6**	**578.6**

The Operational Boundary is set at a limit that facilitates the funding of the Council's entire financing requirement through loans, if this was the most cost effective approach. The limit was set to anticipate expected expenditure and has not been exceeded during the reporting period (maximum borrowing during the period was £347.9 million).

17. TrI 3 – External Debt

	31/03/16 Actual £million	**30/12/16 Actual £million**	**31/03/17 Expected £million**
Borrowing – General Fund	231.1	229.1	262.9
Borrowing – HRA	118.8	118.8	118.8
Total Borrowing	**349.9**	**347.9**	**381.7**
Other Long Term Liabilities	0.2	0.2	0.2
TOTAL	**350.1**	**348.1**	**381.9**

Prudential and Treasury Indicators for 2016/2017, 2017/2018 & 2018/2019

18. TrI 3 shows the gross External Debt outstanding, both long-term loans and temporary borrowing. No debt has been repaid this quarter. The figure for actual borrowing at 31 March 2016 is stated at the amount that reflects actual outstanding external borrowing at the end of 2015/2016 (i.e. excluding accounting adjustments, such as accrued interest and effective interest rate adjustments).

Treasury Management Indicators within the Treasury Management Code

19. TrI 4a – Upper Limit on Fixed Interest Rate Exposures

The Council's upper limit for fixed interest rate exposure for the period 2016/2017 to 2018/2019 is 100% of net outstanding principal sums.

20. TrI 4b – Upper Limit on Variable Interest Rate Exposures

The Council's upper limit for variable interest rate exposure is 52% for 2016/2017, 54% for 2017/2018 and 56% for 2018/2019 of net outstanding principal sums.

21. Options for borrowing during the period were considered, however, (mainly) due to the premium that would be incurred on the early repayment of debt, no new borrowing was taken.

22. TrI 5 – Upper & Lower Limits on the Maturity Structure of Borrowing

Limits on the Maturity Structure of Borrowing	**Upper Limit**	**Lower Limit**	**Position at 31/12/16**
Maturing Period:			
- under 12 months	25%	0%	12%
- 12 months and within 24 months	25%	0%	4%
- 2 years and within 5 years	45%	0%	10%
- 5 years and within 10 years	75%	0%	14%
- 10 years and above	100%	0%	60%

23. No long term borrowing has been taken during the period. If interest rates are favourable and an opportunity exists to take further borrowing this year we will, according to need, look to match borrowing with this maturity structure.

24. TrI 6 – Principal Sums invested for periods of longer than 364 days

This PrI is now covered by the Annual Investment Strategy for 2016/2017, which set a limit of £30 million, as approved by Council in February as part of the Treasury Management Strategy. During the first nine months of 2016/2017 no cost effective investments have been identified. The Authority however holds a number of money market funds and a 35 day notice deposit account, which offer competitive interest rates and, in the case of money market funds, instant access for flexibility of cash management.

APPENDIX 1

Prudential and Treasury Indicators for 2016/2017, 2017/2018 & 2018/2019

25. TrI 7 - Local Prudential Indicator – Loan Repayment Structure

In addition to the main maturity indicators it was agreed in the approved Treasury Management Strategy that no more than 15% of long term loans should fall due for repayment within any one financial year. The actual maximum in any one year is currently 12.65%. This relates to £44 million of potential loan repayments in 2017/2018, however £34 million of this relates to LOBOs. Through call options, the lender of a LOBO has the right to change the interest rate at various dates within the loan period. If this were to happen, the Council would repay the loans and consider whether it needs to refinance them. In the current interest rate climate (where interest rates are expected to remain low for some time) the LOBOs are extremely unlikely to be called, but must be included in the repayment structure at the earliest possible call date. A summary maturity profile is shown in Appendix 2.

APPENDIX 2

SUMMARY OF LONG TERM BORROWING 1 APRIL 2016 – 31 DECEMBER 2016

Loans Raised During the Period

Date Raised	Lender	Amount (£m)	Type	Interest rate (%)	Maturity date	No. of years
	Total	0.000				

Average period to maturity (years) **0.00**

Average interest rate (%) **0.00**

Maturity Profile at 31 December 2016

	Amount (£m)					% age		Average rate (%)	
		Market Loans		Total					
Year	PWLB Loans	LOBOs at Next Call Date	LOBOs at Contracted Maturity	Next Call Date	Contracted Maturity	Next Call Date	Contracted Maturity	Next Call Date	Contracted Maturity
	(A)	**(B)**	**(C)**	**(A)+(B)**	**(A)+(C)**				
0 to 5 years	56.810	40.000	-	96.810	56.810	27.8	16.3	3.403	2.684
6 to 15 years	100.623	-	-	100.623	100.623	28.9	28.9	3.431	3.431
16 to 25 years	64.000	-	-	64.000	64.000	18.4	18.4	3.945	3.945
26 to 50 years	65.500	15.000	51.000	80.500	116.500	23.1	33.5	4.465	4.460
Over 50 years	-	6.000	10.000	6.000	10.000	1.7	2.9	4.210	4.206
Totals	286.933	61.000	61.000	347.933	347.933	100.0	100.0	3.770	3.770

Average period to maturity (years) **20.13** **22.36**

CIPFAs Guidance Notes on Treasury Management in the Public Services recommends that the Treasury Management Strategy Reports include LOBO (Lender Option Borrower Option) loans at the earliest date on which the lender can require payment, deemed to be the next 'call date'. At that date the lender may choose to increase the interest rate and the borrower (the Council) may accept the new rate or repay the loan (under the current approved Treasury Management Strategy, the Council would repay the loan). The decision [whether or not the lender chooses to exercise their right to alter the interest rate] will depend on market conditions (interest rates). Current market conditions, where interest rates are predicted to remain low for some time, indicate that it is highly unlikely that lenders will call the loans in the immediate furture.

The alternative method of determining the maturity profile of LOBO loans, based on contracted maturity dates, is used in the statement of accounts.

The table above includes the maturity profiles using both the earliest date on which the lender can require payment and the contracted maturity dates.

APPENDIX 3

SUMMARY OF TEMPORARY LOANS AND DEPOSITS 1 APRIL 2016 – 31 DECEMBER 2016

Deposits Outstanding at 31 December 2016

Borrower	Amount £m	Terms		Interest Rate	Capita Credit Rating at 31/12/2016
National Bank of Abu Dhabi	8.000	Fixed to	04/03/2017	0.48	Orange - 12 Months
Surry Heath Borough Council	6.000	Fixed to	16/01/2017	0.25	Yellow - 5 years
Lloyds Bank	5.000	Fixed to	17/01/2017	0.50	Red - 6 Months
Qatar National Bank	8.000	Fixed to	14/02/2017	0.40	Orange - 12 Months
HSBC	5.800	No fixed maturity date		0.10	Orange - 12 Months
Black Rock Money Market Fund	14.899	No fixed maturity date		0.31	AAA
Prime Rate Money Market Fund	14.804	No fixed maturity date		0.32	AAA
Goldman Sachs Money Market Fund	0.067	No fixed maturity date		0.24	AAA
Standard Life Investments Liquidity Funds	15.001	No fixed maturity date		0.34	AAA
JP Morgan Money Market Fund	0.001	No fixed maturity date		0.30	AAA
Total	**77.572**				

Investments held have increased by £19.258 million between the end of September 2016 (as reported in the previous Quarterly Treasury Report) and at the end of December 2016. This reflects changes in cash flows/timing differences (e.g. movements in the value of receipts and payments), resulting in an increase in cash available for investment. The cash position is reviewed regularly to ensure that the Council maintains an appropriate level of cash to support the Council's cash flow commitments. Timing differences are expected to reverse as the financial year progresses. The change in the investment position is shown in the table below.

	Year Ended 31/03/2016 £m	Quarter Ended 30/06/2016 £m	Change £m	Quarter Ended 30/09/2016 £m	Change £m	Quarter Ended 31/12/2016 £m	Change £m
Total Deposits Outstanding	**27.371**	**56.250**	**28.879**	**58.314**	**2.064**	**77.572**	**19.258**

Temporary Loans Outstanding at 31 December 2016

Lender	Amount £m	Terms	Interest Rate
There were no temporary loans outstanding at 31 December 2016			
Total	**0.000**		