

Wiltshire Council

Cabinet

12 September 2017

Subject: Treasury Management Report Quarter 1

Cabinet Member: Cllr Philip Whitehead, Cabinet Member for Finance

Key Decision: No

Executive Summary

The Council has adopted a Treasury Management Strategy and an Annual Investment Strategy for 2017/2018 at its meeting on 7 February 2017.

In addition to an Annual Report, the policy requires quarterly reports reviewing the Treasury Management Strategy. This is the first quarterly report of 2017/2018 and covers the period from 1 April 2017 to 30 June 2017.

Proposal(s)

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

Reason for Proposal(s)

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 2017/2018.

**Dr Carlton Brand
Corporate Director**

Wiltshire Council

Cabinet

12 September 2017

Subject: Treasury Management Report Quarter 1

Cabinet Member: Cllr Philip Whitehead, Cabinet Member for Finance

Key Decision: No

Purpose of Report

1. The Council adopted a Treasury Management Strategy for 2017/2018 at its meeting on 7 February 2017, incorporating Prudential Indicators, Treasury Management Indicators and an Annual Investment Strategy, in accordance with the Prudential Code for Capital Finance in Local Authorities (the Prudential Code).
2. The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management recommends that members be updated on treasury management activities regularly. This report, therefore, ensures Wiltshire Council is implementing best practice in accordance with the Code.

Economic Background and Interest Rate Forecast

3. The Council's treasury advisor, Capita Asset Services, has provided the following interest rate forecast:

	2017/2018			2018/2019				2019/2020			
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Bank Rate	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.75	0.75
25yr PWLB Rate	2.80	2.90	2.90	3.00	3.00	3.10	3.10	3.20	3.20	3.30	3.30

4. The Monetary Policy Committee, (MPC), cut Bank Rate from 0.50% to 0.25% in August 2016 in order to counteract what it forecast was going to be a sharp slowdown in growth in the second half of 2016. However, since then, growth has been robust until dipping in quarter 1 of 2017 to 0.2%. Also, CPI inflation has risen substantially as a result of the sharp fall in the value of sterling since the referendum. Consequently, Bank Rate has not been cut again, and market concern has switched to whether the MPC could get together a majority to reverse the August emergency 0.25% rate cut before embarking on a progressive trend of increases in Bank Rate at a later time when the economic and political / Brexit situation is more robust to withstand such increases.
5. From a national economic picture there is uncertainty at this time over a range of factors including Brexit, there is thus uncertainty over as or if when Bank Rate will rise.

6. Accordingly, a first increase to 0.50% is not tentatively pencilled in, as in the table above, until quarter 2 of 2019, after the Brexit negotiations have been concluded, (though the period for negotiations could be extended). However, if strong domestically generated inflation, (e.g. from wage increases within the UK), were to emerge, then the pace and timing of increases in Bank Rate could be brought forward.

Annual Investment Strategy 2017/2018

7. The Treasury Management Strategy Statement 2017/2018, which includes the Annual Investment Strategy, was approved by the Council on 7 February 2017. It sets out the Council's investment priorities as being:
- Security of capital;
 - Liquidity; and
 - Yield.
8. The Council will 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 periods up to 12 months with highly credit rated financial institutions, using our advisors suggested creditworthiness approach, including a minimum sovereign credit rating and Credit Default Swaps (CDS) overlay information.
9. Officers can confirm that the approved limits with the Annual Investment Strategy were not breached during the quarter ended 30 June 2017.
10. The average level of funds available for investment purposes during the quarter was £111 million. These funds were available on a temporary basis, are mainly dependent on the timing of precept payments, receipt of grants and progress on the capital programme.

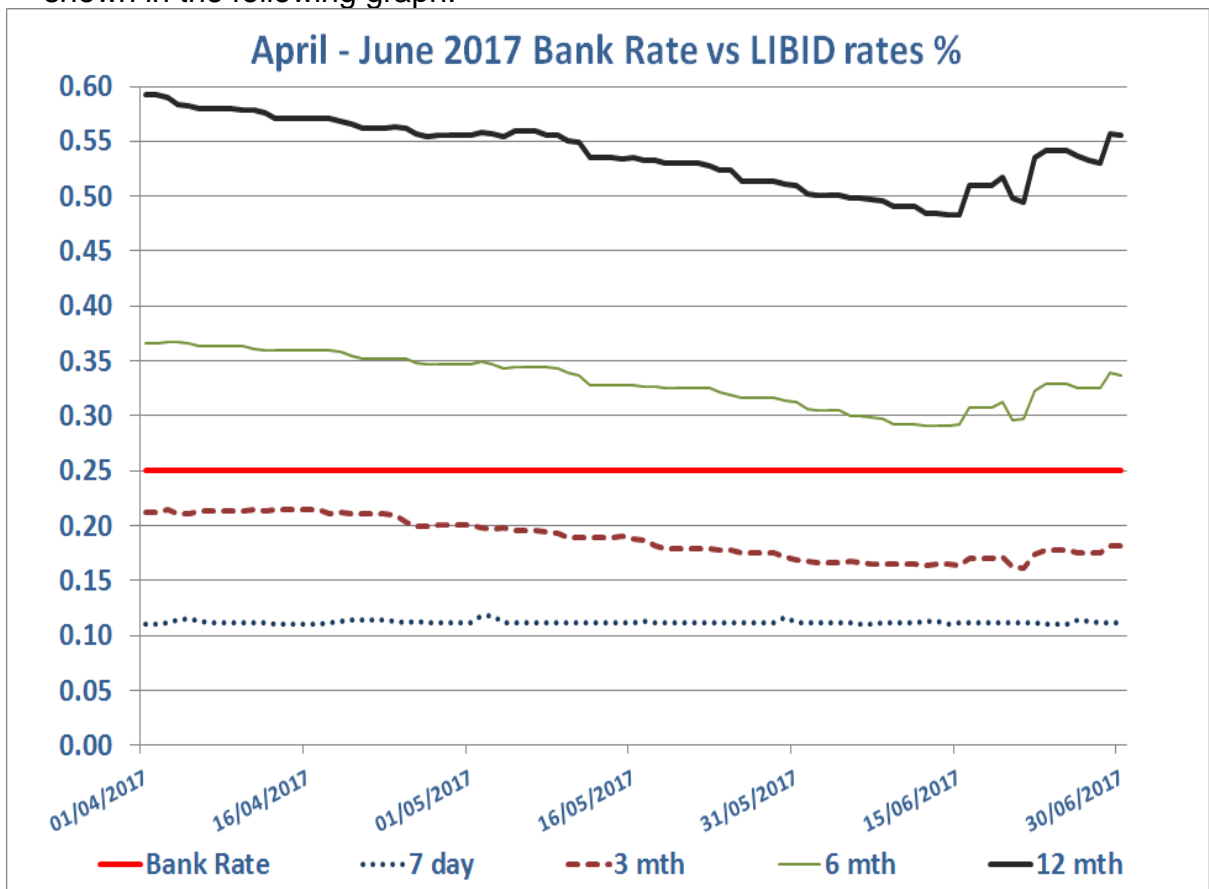
Investment Performance for quarter ended 30 June 2017

Benchmark	Benchmark Return (%)
7 day	0.11
1 month	0.13
3 month	0.19
6 month	0.33
Council Performance	0.36
Interest Earned	£97,766

11. The Council has a Weighted Average Maturity of 67 days for investments during the quarter ended 30 June 2017. This lies between the 1 month and 3 month benchmarks.
12. As shown, the Council outperformed the 3 month benchmark by 17bps (basis points) and the 1 month benchmark by 23 bps.

13. The Council's budgeted investment return for 2017/2018 is £0.948 million, therefore forecast investment income (interest) for the year to date is expected to be below budget if performance in future quarters reflects that of quarter 1. The underachievement of interest receivable compared to budget is offset by an underspend on interest payable compared to budget. This is due to a combination of low interest rates and low amounts of required borrowing for capital purposes, which is a similar position to 2016/2017. Forecasts on interest receivable and payable are included as part of the overall forecast position of the Capital Financing and HRA lines in the quarterly revenue budget monitoring reports taken to Cabinet.

14. Investment rates available in the market were on a slight declining trend during the quarter, but 'over 3 month rates' then rose during the last half of June, as shown in the following graph.



Borrowing

15. No new borrowing was undertaken during the quarter.

Debt Rescheduling

16. Debt rescheduling opportunities have been limited in the current economic climate and following the increase in the margin added to gilt yields which has impacted PWLB new borrowing rates since October 2010.

17. No debt rescheduling was undertaken during the quarter.

Compliance with Treasury and Prudential Limits

18. It is a statutory duty for the Council to determine and keep under review affordable borrowing limits. The Council's approved treasury and prudential Indicators (affordability limits), are included in the approved Treasury Management Strategy 2017/2018.
19. During the quarter ended 30 June 2017, the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy 2017/2018 and in compliance with the Council's Treasury Management Practices. The prudential and treasury Indicators are shown in Appendix 1.
20. A summary of the Council's investments are detailed at Appendix 2, and the borrowing position is detailed in Appendix 3.

Other Treasury Management Issues

21. In June 2017, as a consequence of some diplomatic instability, all of the ratings agencies placed Qatar National Bank on a 'negative watch'. Following this, our advisors adjusted the suggested maximum duration for investment with Qatar National Bank to 100 days.
22. The Council had one investment of £8.000 million with Qatar National Bank at this time. At the time the funds were invested (14 February 2017), the bank had a rating of AA-/F1+, and the suggested maximum duration, as advised by our advisors, was 12 months. For Cashflow reasons, this investment was made for 6 months, and matured on 14 August 2017. The full value of the investment plus interest was received by the Council on 14 August 2017.
23. Although the bank remains on the approved investment list, it has been decided that the Council will no longer place investments with the Qatar National Bank, until such time that the negative watch is removed, and replaced with a stable outlook.

Overview and Scrutiny Engagement

24. There has been no direct engagement with Overview & Scrutiny regarding the contents of this report. However, regular reports relating to the Council's financial position are taken to the Overview & Scrutiny Management Committee's Financial Planning Task Group.

Safeguarding Implications

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

Public Health Implications

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

Procurement Implications

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

Equalities Impact of the Proposal (detailing conclusions identified from Equality Analysis, sections 4 and 5)

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

Environmental and Climate Change Considerations

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

Risks Assessment

30. All investments have 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.

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

32. Investment counterparty risk is controlled by assessing and monitoring the credit risk of borrowers as authorised by the Annual Investment Strategy.

Risks that may arise if the proposed decision and related work is not taken

33. This report does not require a decision to be made.

Risks that may arise if the proposed decision is taken and actions that will be taken to manage these risks

34. This report does not require a decision to be made.

Financial Implications

35. These have been examined and are implicit throughout the report.

Legal Implications

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

Options Considered

37. None.

Conclusions

38. To note that the contents of this report are in line with the Treasury Management Strategy 2017/2018.

39. To give members an opportunity to consider the performance of the Council's investments and borrowings against the parameters set out in the approved Treasury Management Strategy for 2017/2018.

Michael Hudson (Associate Director, Finance)

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16 August 2017

Appendices

- Appendix 1 Prudential and Treasury Indicators
- Appendix 2 Investment Portfolio
- Appendix 3 Borrowing Portfolio
- Appendix 4 Approved Countries for Investments

Background Papers

Treasury Management Strategy 2017/2018