

Wiltshire Council

Cabinet

12 December 2017

**Subject: Report on Treasury Management Strategy 2017/2018
Quarter ended 30 September 2017**

Cabinet member: Councillor Philip Whitehead - 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 second quarterly report of 2017/2018 and covers the period from 1 April 2017 to 30 September 2017.

Proposals

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

Reasons for Proposals

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.

**Carlton Brand
Corporate Director**

Wiltshire Council

Cabinet

12 December 2017

**Subject: Report on Treasury Management Strategy 2017/2018
Quarter ended 30 September 2017**

**Cabinet member: Councillor Philip Whitehead
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. In November 2017 the Monetary Policy Committee (MPC) raised the bank rate, for the first time in ten years, from 0.25% to 0.50%. Forward guidance was given by the MPC, that they expected to increase bank rate only twice more in the next three years to reach 1.00% by 2020.
4. The Council's treasury advisor, Capita Asset Services, has provided the following revised interest rate forecast,

	2017/2018		2018/2019				2019/2020			
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Bank Rate	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00
25yr PWLB Rate	2.80	2.90	3.00	3.00	3.10	3.10	3.20	3.20	3.30	3.40

5. Capita Asset Services report that economic forecasting remains difficult with so many external influences weighing on the UK. Their interest rate forecasts (and also MPC decisions) will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year.
6. The MPC also made some comments around the fact that the UK is going through a period of heightened uncertainty, particularly due to the unknowns around how the Brexit negotiations will proceed and the likely effect on households and companies. They will adjust their responses according to how

these turn out and in the light of how the economy progresses over the next two to three years. Capita Asset Services added that if the Brexit negotiations are difficult and end up being disappointing, this could put in jeopardy the two bank rate increases over the next three years.

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 September 2017.
10. The average level of funds available for investment purposes during the quarter was £113million. 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 Financial Year to Date as at 30 September 2017

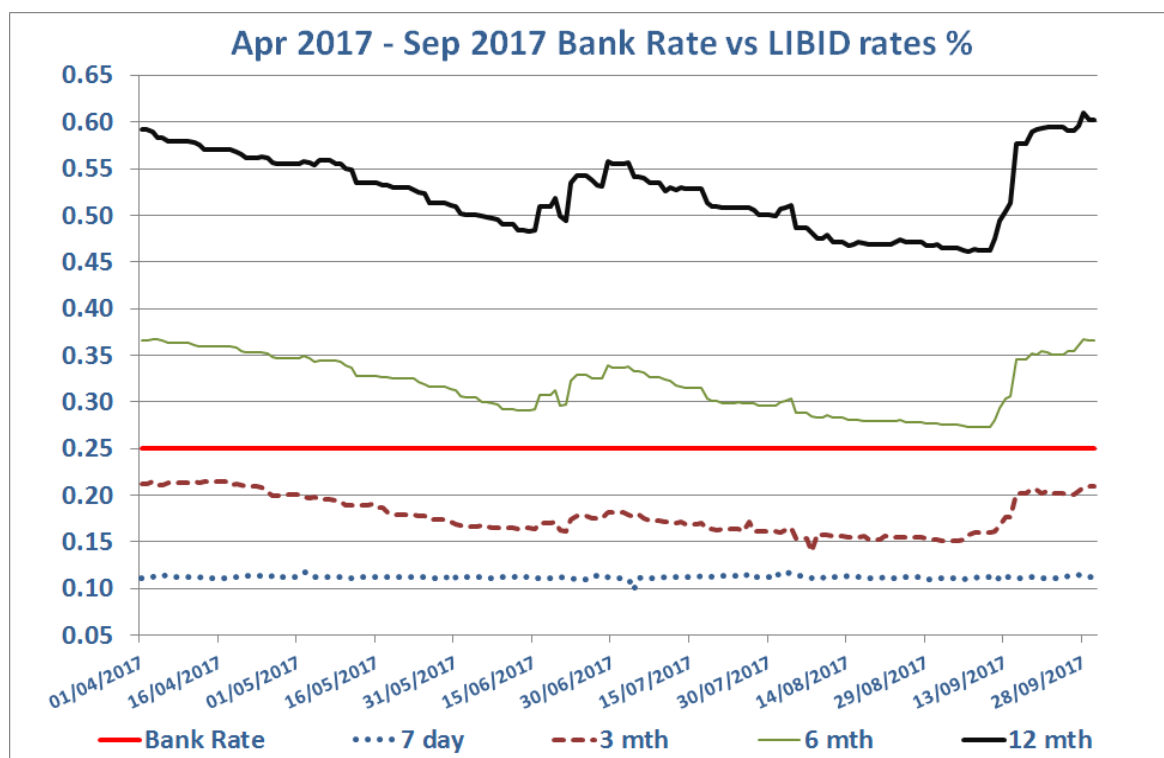
Benchmark	Benchmark Return (%)
7 day	0.11
1 month	0.13
3 month	0.18
6 month	0.32
Council Performance	0.36
Interest Earned	£204,337

11. The Council had a Weighted Average Total Time on its investment portfolio of Maturity of 184 days.
12. As shown, the Council outperformed the 6 month benchmark by 4bps (basis points).
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 2. 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 most of quarter 1 and 2 but, apart from the seven day rate, moved up sharply in late June and then again after the MPC meeting of 14 September abruptly raised expectations of how soon bank rate was likely to go up. This is shown in the following table and graph.

	Bank rate	7 day	1 month	3 month	6 month	12 month
High	0.25	0.12	0.13	0.21	0.37	0.61
High date	01/04/17	02/08/17	19/04/17	11/04/17	28/09/17	28/09/17
Low	0.25	0.10	0.12	0.14	0.27	0.46
Low date	01/04/17	04/07/17	10/08/17	07/08/17	07/09/17	06/09/17
Average	0.25	0.11	0.13	0.18	0.32	0.53
Spread	0.00	0.02	0.01	0.08	0.09	0.15



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 September 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', which has since changed to a 'negative outlook'. Following this, our advisors adjusted the suggested maximum duration for investment with Qatar National Bank to 100 days. 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/outlook is removed, and replaced with a stable outlook. The Council currently has no investments with Qatar National Bank.
22. The EU has now set a deadline of 3 January 2018 for the introduction of regulations under MIFID (Markets in Financial Instruments Directive) II. These regulations will govern the relationship that financial institutions conducting lending and borrowing transactions will have with local authorities. This will have little effect on Wiltshire Council, apart from completing documentation for every institution used for each investment instrument, to confirm Wiltshire Council status as a 'professional' client.

Overview & Scrutiny Engagement

23. Regular reports are taken to Overview & Scrutiny relating to the Council's financial position

Safeguarding Implications

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

Public Health Implications

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

Procurement Implications

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

Equalities Impact of the Proposal

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

Environmental and Climate Change Considerations

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

Risks Assessment

29. 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.

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

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

Financial Implications

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

Legal Implications

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

Proposals

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

35. 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.

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22 November 2017

Appendices

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

Treasury and Prudential Indicators as at 30 September 2017

Treasury Indicators	2017/2018 Budget (£m)	Quarter 2 Actual (£m)
Authorised limit for external debt	558.3	337.9
Operational boundary for external debt	547.7	337.9
Gross external debt	340.2	338.1
Consisting of :-		
Investments		98.1
Net Borrowing		240.0

Maturity structure of fixed rate borrowing	2017/2018 Budget (%)		Quarter 2 Actual (%)	
	Upper Limit	Lower Limit	Next Call Date	Contractual Maturity
Under 12 months	25	0	13	3
12 months to 2 years	25	0	4	4
2 years to 5 years	45	0	8	7
5 years to 10 years	75	0	16	15
10 years and above	100	0	59	71

Upper limit of fixed interest rates based on net debt	100%	100%
Upper limit of variable interest rates based on net debt	52%	0%
Upper limit for principal sums invested over 364 days	£30m	£0
Local Treasury Indicator Debt Repayment (based on call dates – CIPFA Guidance)	Maximum 15% per year	13% (2017/2018)

Prudential Indicators	2017/2018 Original Budget (£m)	Quarter 2 Actual (£m)
Capital Expenditure – General Fund (GF)	94.5	46.0
Capital Expenditure – HRA	37.0	9.3
Capital Financing Requirement – GF	396.7	406.9
Capital Financing Requirement – HRA	123.3	123.3
Annual change in CFR – GF	0.0	(23.3)
Annual change in CFR – HRA	0.0	0.0
In year borrowing requirement		
Ratio of financing costs to net revenue stream - GF	7.6%	7.5%
Ratio of financing costs to net revenue stream – HRA	15.2%	15.2%
Incremental impact of capital investment decisions		
Increase in council tax per annum	£4.56	Year End Only
Increase in average housing rent per week	£0.00	Year End Only

Appendix 2

Investment Portfolio as at 30 September 2017 (compared to the counterparty list)

Borrower	Amount (£m)	Interest Rate	Start Date	Maturity	Capita Credit Rating
Lloyds TSB Bank	8.00	0.55	18/04/2017	18/10/2017	Red - 6 months
Coventry Building Society	8.00	0.4	27/04/2017	27/10/2017	Red - 6 months
Barclays Bank	8.00	0.36	05/05/2017	06/11/2017	Red - 6 months
Rhondda Cynon Taff Council	5.00	0.37	25/05/2017	27/11/2017	Local Authority - 60 months
Salford City Council	5.00	0.38	13/06/2017	13/12/2017	Local Authority - 60 months
Nationwide Building Society	8.00	0.36	03/07/2017	03/01/2018	Red - 6 months
Northamptonshire County Council	5.00	0.35	29/09/2017	03/01/2018	Local Authority - 60 months
Surrey County Council	5.00	0.36	27/09/2017	05/01/2018	Local Authority - 60 months
Close Brothers	3.00	0.6	28/07/2017	29/01/2018	Red - 6 months
Australia and New Zealand Banking Group	8.00	0.45	23/05/2017	23/02/2018	Orange - 12 months
Close Brothers	5.00	0.4	15/09/2017	15/03/2018	Red - 6 months
Dudley Metropolitan Borough Council	3.00	0.4	25/09/2017	29/03/2018	Local Authority - 60 months
DBS Bank Ltd.	8.00	0.42	18/09/2017	18/06/2018	Orange - 12 months
National Bank of Abu Dhabi	8.00	0.53	14/09/2017	13/09/2018	Orange - 12 months
Black Rock Money Market Fund	0.01	0.24	*	*	AAA
JP Morgan Money Market Fund	0.01	0.21	*	*	AAA
Prime Rate Money Market Fund	1.04	0.27	*	*	AAA
Goldman Sachs Money Market Fund	0.03	0.21	*	*	AAA
Standard Life Investments Liquidity Fund	10.03	0.28	*	*	AAA
Total	98.12				

* Money Market Funds – cash can be invested and withdrawn on a daily basis (subject to maximum investment limits) so there is no start date or maturity date for the purposes of this report.

Capita provide a creditworthiness service, which employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- a) credit watches and credit outlooks from credit rating agencies;
- b) CDS spreads to give early warning of likely changes in credit ratings;
- c) 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 used by the Council to determine the suggested duration for investments. The Council will therefore use counterparties within the following durational bands:

- a) Yellow – 5 years (this category is for AAA rated Government debt or its equivalent, including an investment instrument – collateralised deposits, where the investment is secured only against local authority debt, namely LOBOs, making them effectively government exposure);
- b) Dark pink – 5 years for Enhanced money market funds (EMMFs) with a credit score of 1.25
- c) Light pink – 5 years for Enhanced money market funds (EMMFs) with a credit score of 1.5
- d) Purple – 2 years;
- e) Blue – 1 year (only applies to nationalised or semi nationalised UK Banks and their subsidiaries);
- f) Orange – 1 year;
- g) Red – 6 months;
- h) Green – 100 days; and
- i) No Colour – not to be used.

The advisor's creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue preponderance to just one agency's ratings.

Borrowing Portfolio as at 30 September 2017

Lender	Start Date	Maturity Date	Amount £m	Rate	Annual Interest £m
Public Works Loan Board (PWLB)					
PWLB	21/03/2011	21/03/2018	10.00	4.02	0.40
PWLB	18/03/2016	18/03/2019	10.00	1.38	0.14
PWLB	28/03/2012	28/03/2019	4.81	1.76	0.08
PWLB	28/03/2012	28/03/2020	8.00	1.99	0.16
PWLB	28/03/2012	28/03/2021	4.00	2.21	0.09
PWLB	15/02/2010	01/06/2021	2.00	4.33	0.09
PWLB	28/03/2012	28/03/2022	8.00	2.4	0.19
PWLB	28/03/2012	28/03/2023	8.00	2.56	0.20
PWLB	15/02/2010	01/06/2023	2.00	4.45	0.09
PWLB	28/03/2012	28/03/2024	8.00	2.7	0.22
PWLB	15/02/2010	01/06/2024	2.00	4.49	0.09
PWLB	28/03/2012	28/03/2025	8.00	2.82	0.23
PWLB	14/08/2001	01/12/2025	0.12	4.875	0.01
PWLB	28/03/2012	28/03/2026	10.00	2.92	0.23
PWLB	15/02/2010	01/06/2026	2.00	4.54	0.09
PWLB	28/03/2012	28/03/2027	8.00	3.01	0.24
PWLB	21/08/2002	01/06/2027	4.00	4.75	0.19
PWLB	28/03/2012	28/03/2028	6.00	3.08	0.18
PWLB	29/07/1999	01/06/2028	1.00	4.75	0.05
PWLB	15/02/2010	01/06/2028	2.00	4.56	0.09
PWLB	28/03/2012	28/03/2029	7.00	3.15	0.22
PWLB	29/07/1999	01/06/2029	1.00	4.75	0.05
PWLB	28/03/2012	28/03/2030	8.00	3.21	0.26
PWLB	29/07/1999	01/06/2030	1.00	4.75	0.05
PWLB	20/05/2005	01/06/2030	2.00	4.45	0.09
PWLB	05/12/2005	18/03/2031	5.00	4.25	0.21
PWLB	28/03/2012	28/03/2031	2.00	3.26	0.07
PWLB	29/07/1999	01/06/2031	1.00	4.75	0.05
PWLB	20/05/2005	01/06/2031	2.00	4.45	0.09
PWLB	21/11/2005	18/09/2031	2.00	4.25	0.09
PWLB	28/03/2012	28/03/2032	5.00	3.3	0.17
PWLB	20/05/2005	01/06/2032	2.00	4.45	0.09
PWLB	04/11/1999	01/12/2032	1.50	4.625	0.07
PWLB	28/03/2012	28/03/2033	6.00	3.34	0.20
PWLB	20/05/2005	01/06/2033	2.00	4.45	0.09
PWLB	15/11/1999	19/09/2033	1.00	4.25	0.04
PWLB	28/03/2012	28/03/2034	7.00	3.37	0.24
PWLB	20/05/2005	01/06/2034	2.00	4.45	0.09
PWLB	15/11/1999	18/09/2034	1.00	4.25	0.04
PWLB	21/11/2005	18/09/2034	5.00	4.25	0.21
PWLB	28/03/2012	28/03/2035	2.00	3.4	0.07

PWLB	14/06/2005	14/06/2035	5.00	4.35	0.22
PWLB	15/11/1999	18/09/2035	1.00	4.25	0.04
PWLB	21/11/2005	18/09/2035	5.00	4.25	0.21
PWLB	15/11/1999	18/09/2036	0.50	4.25	0.02
PWLB	15/11/1999	18/09/2036	0.50	4.25	0.02
PWLB	28/03/2012	28/03/2037	9.00	3.44	0.31
PWLB	11/01/2006	01/12/2037	4.00	4	0.16
PWLB	11/01/2006	01/12/2038	4.00	4	0.16
PWLB	15/02/2010	01/06/2041	2.00	4.57	0.09
PWLB	11/08/2006	01/12/2041	3.00	4.35	0.13
PWLB	15/02/2010	01/06/2042	2.00	4.57	0.09
PWLB	11/08/2006	01/12/2042	2.00	4.35	0.09
PWLB	11/08/2006	01/12/2043	2.00	4.35	0.09
PWLB	06/09/2006	01/12/2044	3.00	4.25	0.13
PWLB	06/09/2006	01/12/2045	3.00	4.25	0.13
PWLB	29/06/2006	18/09/2046	4.00	4.45	0.18
PWLB	30/08/2006	01/12/2046	2.00	4.25	0.09
PWLB	29/06/2006	18/09/2047	4.00	4.45	0.18
PWLB	30/08/2006	01/12/2047	2.00	4.25	0.09
PWLB	09/10/1998	18/09/2048	1.00	4.5	0.05
PWLB	29/06/2006	18/09/2048	3.50	4.45	0.16
PWLB	30/08/2006	01/12/2048	2.00	4.25	0.09
PWLB	09/10/1998	18/09/2049	1.00	4.5	0.05
PWLB	29/06/2006	18/09/2049	3.00	4.45	0.13
PWLB	30/08/2006	01/12/2049	2.00	4.25	0.09
PWLB	30/08/2006	01/06/2050	5.00	4.25	0.21
PWLB	17/09/1998	18/09/2050	1.00	5.125	0.05
PWLB	17/09/1998	18/09/2051	1.00	5.125	0.05
PWLB	07/03/2007	01/06/2052	2.00	4.25	0.09
PWLB	23/07/1998	03/06/2052	1.00	5.5	0.06
PWLB	07/03/2007	01/06/2053	2.00	4.25	0.09
PWLB	23/07/1998	02/06/2053	1.00	5.5	0.06
PWLB	19/06/1998	01/06/2054	1.00	5.375	0.05
PWLB	19/06/1998	01/06/2055	1.00	5.375	0.05
PWLB	21/06/2006	01/06/2055	2.00	4.3	0.09
PWLB	22/06/2006	18/09/2055	4.00	4.35	0.17
PWLB	19/06/1998	01/06/2056	1.50	5.375	0.08
PWLB	21/06/2006	01/06/2056	3.00	4.3	0.13
PWLB	22/06/2006	01/06/2056	6.00	4.35	0.26
PWLB	02/10/1997	25/09/2057	1.50	6.625	0.10
TOTAL PWLB LOANS			276.93		10.07

Lender	Start Date	Maturity Date	Amount £m	Rate	Annual Interest £m
LOBO Loans					
Barclays Bank	03/12/2004	03/12/2054	10.00	4.45	0.45
FMS Wermanagement	07/12/2004	08/12/2053	10.00	4.45	0.45
PBB Deutsche Pfandbriefbank	10/12/2004	10/12/2052	10.00	4.45	0.45
Dexia Credit Local	10/12/2004	11/12/2051	10.00	4.45	0.45
Barclays Bank	31/08/2005	31/08/2055	5.00	3.99	0.20
Dexia Credit Local	20/02/2006	18/02/2066	6.00	4.45	0.27
Beyern LB	05/03/2007	07/03/2067	4.00	4.2	0.17
Barclays Bank	31/07/2007	01/08/2067	6.00	4.21	0.25
TOTAL LOBO LOANS			61.00		2.67
TOTAL - ALL LOANS			337.93		12.73

Approved Countries for Investments as at 30 September 2017

(Based on lowest available rating)

AAA

- Australia
- Canada
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- France
- Hong Kong
- U.K.

AA-

- Belgium
- Qatar