Wiltshire Council

Cabinet

13 September 2016

Subject:	**Report on Treasury Management Strategy 2016-17 – First Quarter ended 30 June 2016**
Cabinet member:	**Councillor Richard Tonge - Finance**
Key Decision:	**No**

Executive Summary

The Council has adopted a Treasury Management Strategy and an Annual Investment Strategy (AIS) for 2016-17 at its meeting on 23 February 2016, which can be found in the Council meeting agenda reports pack at the following Link, Item 8, Pages 117 to 140.

In addition to an Annual Report, the policy requires quarterly reports reviewing the Treasury Management Strategy (TMS). This is the first quarterly report of 2016-17 and covers the period from 1 April 2016 to 30 June 2016.

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 2016-17.

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 2016-17 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). The Strategy report can be found in the Council 23 February 2016 agenda reports pack, Item 8, Pages 117 to 140 at following Link.

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 first quarter of 2016-17, ended 30 June 2016.

2. <u>Main Considerations for the Cabinet</u>

2.1 This report reviews management actions in relation to:

a) the PrIs, TrIs originally set for the year and the position at the 30 June 2016;

b) other treasury management actions during the period; and

c) the approved Annual Investment Strategy.

Lender Option Borrower Option (LOBO) Loans

2.2 The Council currently has eight LOBO loans, totalling £61 million, three of which (totalling £21 million) were taken with Barclays. We have recently (30 June 2016) received notification that Barclays have made the decision to waive their right (Lender Option) to change the applicable interest rates in the future. The loans, therefore, effectively become fixed rate loans, at their current interest rates and stated maturities and no risk that the interest rates will be changed in the future.

2.3 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

Debt Rescheduling

2.4 No opportunities to reschedule PWLB debt have been identified during the period, mainly because of the high level of premiums payable for early repayment of debt. This is continually monitored and any opportunities to reschedule cost effectively will be considered, should they arise. This is unlikely, unless the PWLB change policy regarding early repayment.

Cash Surpluses and Deficits

Short Term Surpluses and Deficits

2.5 Any short term cash surpluses or deficits have been managed through temporary deposits or loans, respectively. Temporary deposits outstanding at 30 June 2016 amounted to £56.250 million, as detailed in Appendix 3.

Icelandic Banks

2.6 The only outstanding amount not yet received relates to the former Heritable Bank of approximately £0.180 million, which will be repaid in time, either by the administrators of Heritable or via an agreement with LBI (successor to Landsbanki). Indications are that this will be received in the next 24 months.

2.7 The (circa) £20,000 deposit (on conversion), relating to Landsbanki, that was held in Iceland (in Icelandic Kroner) has been repaid in this quarter (via an auction which took place in mid-June 2016).

Longer Term Cash Balances

2.8 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.

2.9 Rates have remained relatively low, which is, therefore, reflected in rates available, including the “special tranche rate” investments. Details of investments outstanding are shown in Appendix 3.

Review of Investment Strategy

2.10 The Treasury Management Strategy Statement (TMSS) for 2016-17, 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.

2.11 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. 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.

2.12 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.

2.13 Credit ratings are incorporated within the approved Investment Strategy as detailed within the Treasury Management Strategy 2016-17 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
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[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.

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 2016-17, 2017-18 & 2018-19
Appendix 2 Summary of Long Term Borrowing 1 April 2016 – 30 June 2016
Appendix 3 Summary of Temporary Loans and Deposits 1 April 2016 – 30 June 2016

Prudential and Treasury Indicators for 2016-17, 2017-18 & 2018-19

Prudential Indicators

PrI 1 – Capital Expenditure

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

	2015-16 Actual Outturn £ million	**2016-17 Original Estimate £ million**	**2016-17 Revised Estimate £ million**	**2016-17 Actual To date 31/07/16 £ million**
General Fund	101.6	122.7	159.0	20.3
HRA	13.3	11.9	12.1	2.3

2. The (revised) estimate and actual to date for 2016-17 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 4 2016-2017 report (as at 31 July 2016) is being taken to CCAC in September 2016.

PrI 2 – Ratio of Financing Costs to Net Revenue Stream

	2015-16 Actual Outturn	**2016-17 Original Estimate**	**2016-17 Revised Estimate**
General Fund	7.0%	8.1%	7.3%
Housing Revenue Account	14.9%	15.2%	15.0%

4. The General Fund revised estimate for 2016-17 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.

APPENDIX 1

Prudential and Treasury Indicators for 2016-17, 2017-18 & 2018-19

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

5. This indicator is only relevant at budget setting time and for 2016-17 was calculated as being £-17.81.

PrI 4 – Gross Borrowing compared to Capital Financing Requirement (CFR)

	2015-16 Actual Outturn £ million	**2016-17 Original Estimate £ million**	**2016-17 Revised Estimate £ million**
CFR – General Fund	394.7	439.1	400.5
CFR – HRA	122.6	122.6	122.6
Gross Borrowing – General Fund	231.1	314.1	237.1
Gross Borrowing – HRA	118.8	118.8	118.8
CFR not funded by gross borrowing – General Fund	**163.6**	**125.0**	**163.4**
CFR not funded by gross borrowing – HRA	**3.8**	**3.8**	**3.8**

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

7. 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).

8. 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.

9. A continual review of the capital programme over the reporting period has led to a change in the 2016-17 [revised] estimate when compared with the original estimate (which was prepared at budget setting time in February prior to the beginning of the financial year).

10. The revised estimate for General Fund CFR and gross borrowing is based on the 2016-17 Capital Programme which currently stands at £171.145 million and includes all of the 2015-16 slippage. The Capital Programme is being reviewed by CLT for affordability and the borrowing position may, therefore, be subject to change.

Prudential and Treasury Indicators for 2016-17, 2017-18 & 2018-19

PrI 5 – Compliance with the CIPFA Code of Practice for Treasury Management in the Public Services

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

Treasury Management Indicators within the Prudential Code

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

TrI 1 – Authorised Limit for External Debt

Authorised Limit	**2016-17 £ million**	**2017-18 £ million**	**2018-19 £ 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**

13. 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.

TrI 2 – Operational Boundary for External Debt

Operational Boundary	2016-17 £ million	**2017-18 £ million**	**2018-19 £ 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**

14. 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 £350.1 million).

Prudential and Treasury Indicators for 2016-17, 2017-18 & 2018-19

TrI 3 – External Debt

	31/03/16 Actual £ million	30/06/16 Actual £ million	31/03/17 Expected £ million
Borrowing – General Fund	231.1	229.1	237.1
Borrowing – HRA	118.8	118.8	118.8
Total Borrowing	**349.9**	**347.9**	**355.9**
Other Long Term Liabilities	0.2	0.2	0.2
TOTAL	**350.1**	**348.1**	**356.1**

15. TrI 3 shows the gross External Debt outstanding, both long-term loans and temporary borrowing. A £2 million General Fund PWLB loan was repaid, on maturity, in June 2016. This has resulted in a reduction in actual borrowing, the repayment being contained within the Councils cash flow, through a reduction in investments rather than refinancing. The figure for actual borrowing at 31 March 2016 is stated at the amount that reflects actual outstanding external borrowing at the end of 2015-16 (i.e. excluding accounting adjustments, such as accrued interest and effective interest rate adjustments).

Treasury Management Indicators within the Treasury Management Code

TrI 4a – Upper Limit on Fixed Interest Rate Exposures

The Council's upper limit for fixed interest rate exposure for the period 2016-17 to 2018-19 is 100% of net outstanding principal sums.

TrI 4b – Upper Limit on Variable Interest Rate Exposures

The Council's upper limit for variable interest rate exposure is 52% for 2016-17, 54% for 2017-18 and 56% for 2018-19 of net outstanding principal sums.

16. 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.

Prudential and Treasury Indicators for 2016-17, 2017-18 & 2018-19

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

Limits on the Maturity Structure of Borrowing	**Upper Limit**	**Lower Limit**	**Position at 30/06/15**
Maturing Period:			
- under 12 months	25%	0%	16%
- 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%	15%
- 10 years and above	100%	0%	55%

17. 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.

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

18. This PrI is now covered by the Annual Investment Strategy for 2016-17, which set a limit of £30 million, as approved by Council in February as part of the Treasury Management Strategy. During the first three months of 2016-17 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.

TrI 7 - Local Prudential Indicator

19. 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. Applying the CIPFA recommendation, for the treasury report, the actual maximum in any one year is currently 16.1% (£56 million) in 2016-17. This remains temporarily [marginally] above the 15%. However, this is not the case if the alternative (contracted maturity date) is applied. £46 million (82%) of the £56 million shown as maturing in 2016-17, by the recommended method, relates to LOBO loans. Through call options, the lender has the right to change the interest rate at various points, in which case the Council will 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) they are extremely unlikely to be called. However, please also refer to paragraph 2.2 in the main report, which explains changes to three of the LOBO loans, after the end of the reporting period that effectively changes the status of the loans to fixed term loans. A summary maturity profile is shown in Appendix 2.

SUMMARY OF LONG TERM BORROWING 1 APRIL 2016 – 30 JUNE 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 30 June 2016

Year	Amount (£m)					% age		Average rate (%)	
		Market Loans (LOBO)		Total					
	PWLB	Next Call Date	Contracted Maturity	Next Call Date	Contracted Maturity	Next Call Date	Contracted Maturity	Next Call Date	Contracted Maturity
	(A)	(B)	(C)	(A)+(B)	(A)+(C)				
1 to 5 years	46.810	56.000	-	102.810	46.810	29.5	13.5	3.612	2.662
6 to 15 years	97.123	5.000	-	102.123	97.123	29.4	27.9	3.315	3.280
16 to 25 years	68.500	-	-	68.500	68.500	19.7	19.7	3.897	3.897
26 to 50 years	74.500	-	51.000	74.500	125.500	21.4	36.1	4.497	4.459
Over 50 years	-	-	10.000	-	10.000	-	2.9	-	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) **14.76** **21.61**

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). 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 2015-16 year end outturn.

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

Included within the LOBO loans are three loans (totalling £21m) originally taken with Barclays. On 30 June 2016 the Council received notification that Barclays have made the decision to waive their right (Lender Option) to change the applicable interest rates in the future. The loans, therefore, effectively become fixed rate loans, at their current interest rates and stated maturities and no risk that the interest rates will be changed in the future.

APPENDIX 3

SUMMARY OF TEMPORARY LOANS AND DEPOSITS 1 APRIL 2016 – 30 JUNE 2016

Deposits Outstanding at 30 June 2016

Borrower	Amount £m	Terms		Interest Rate	Capita Credit Rating at 30/06/2016
National Bank of Abu Dhabi	8.000	Fixed to	14-Oct-16	0.76	Orange - 12 Months
Nationwide Building Society	8.000	Fixed to	17-Oct-16	0.72	Red - 6 Months
Lloyds Bank	5.000	Fixed to	15-Jul-16	0.65	Green - 100 Days
Qatar National Bank	8.000	Fixed to	14-Nov-16	0.82	Orange - 12 Months
Australia and New Zealand Banking Group	7.000	Fixed to	16-Aug-16	0.52	Orange - 12 Months
Wiltshire Pension Fund	14.410	Fixed to	04-Jul-16	0.53	N/A
Svenska Handelsbanken (Call Account)	0.017	No fixed maturity date		0.50	Orange - 12 Months
Black Rock Money Market Fund	0.044	No fixed maturity date		0.48	AAA
Prime Rate Money Market Fund	5.774	No fixed maturity date		0.53	AAA
Goldman Sachs Money Market Fund	0.001	No fixed maturity date		0.44	AAA
Standard Life Investments Liquidity Funds	0.004	No fixed maturity date		0.50	AAA
Total	**56.250**				

Investments held have increased by £28.879 million between the end of March 2016 as reported in the Annual Treasury Report, and the end of June 2016. This is because of 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. Any timing differences are expected to reduce 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
Total Deposits Outstanding	**27.371**	**56.250**	**28.879**

Temporary Loans Outstanding at 30 June 2016

Lender	Amount £m	Terms	Interest Rate
There were no temporary loans outstanding at 30 June 2016			
Total	**0.000**		