

Wiltshire Council

Cabinet

13 July 2021

Subject: Treasury Management Outturn Report 2020/21

Cabinet member: Councillor Pauline Church – Cabinet Member for Finance, Procurement, Commissioning, IT, Digital and Commercialisation

Key Decision: Non Key

Executive Summary

The Council adopted a Treasury Management Strategy and an Annual Investment Strategy for 2020/21 at its meeting on 4 February 2020.

The Treasury Management Strategy requires an Annual Outturn Report reviewing the Treasury Management activities for the year. This report covers the period from 1 April 2020 to 31 March 2021.

The Council has continued to finance capital expenditure through maximising the use of capital receipts, capital grants and internal borrowing.

Overall, the Council is under borrowed by £176.530m. This has avoided the Council having to pay out external interest costs in the order of £3.884m. This under borrowed position is factored into the revenue budget. Against budget, there is an underspend in respect of the net position on interest receivable/payable of £0.036m. This has been accounted for in the overall year end revenue outturn position for 2020/21.

The Council did not breach any of its performance indicators during 2020/21.

During the year the Council breached the counterparty limit for the HSBC current account. The limit is £10m and was breached by £1.5m for one day. Details of this breach can be seen in paragraphs 58-60. Actions have been taken to mitigate the risk of reoccurrence of any such breach.

Proposals

Cabinet is requested to:

- a) Note that the contents of this report are in line with the Treasury Management Strategy 2020/21; and to
- b) Recommend to Full Council consideration of this report.

Reasons for Proposals

To give members an opportunity to consider the performance of the Council against the parameters set out in the approved Treasury Management Strategy for 2020/21.

Terence Herbert
Chief Executive

Wiltshire Council

Cabinet

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PURPOSE OF REPORT

1. The Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2020/21. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).
2. During 2020/21 the minimum reporting requirements were that the Council should receive the following reports,
 - an annual treasury strategy in advance of the year (reported to Cabinet on 4 February 2020)
 - a mid-year treasury update report (reported to Cabinet on 3 November 2020)
 - an annual review following the end of the year describing the activity compared to the strategy (this report)
3. The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.
4. This Council confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports before they were reported to Full Council.

5. This report summarises the following,

- Capital activity during the year;
- Impact of this activity on the Council's underlying indebtedness, (the Capital Financing Requirement);
- The actual prudential and treasury indicators;
- Overall treasury position identifying how the Council has borrowed in relation to this indebtedness, and the impact on the investment balances;
- Summary of interest rate movements in the year;
- Detailed debt activity;
- Detailed investment activity.

Overall Treasury Position

6. During 2020/21, the Council complied with its legislative and regulatory requirements. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

Prudential and Treasury Indicators	2019/2020 Actual £m	2020/21 Original Indicator £m	2020/21 Actual £m
Capital Expenditure			
General Fund	97.407	221.052	97.121
HRA	12.558	40.482	10.114
Total	109.965	261.534	107.235
Capital Financing Requirement			
General Fund	446.484	581.433	473.779
HRA	111.865	126.558	107.865
Total	558.349	707.991	581.644
Gross Borrowing	335.123	561.560	336.157
External Debt	335.143	561.580	336.177
PFI Liability	68.816	65.233	68.957
Over/(under) borrowing	(154.410)	(81.198)	(176.530)
Investments			
Longer than one year	0.000	0.000	0.000
Under one year	79.519	109.420	142.452
Total	79.519	109.420	142.452
Net Borrowing	255.604	452.140	193.705

7. Other prudential and treasury indicators are to be found in the main body of the report.

8. The financial year 2020/21 continued the challenging investment environment of previous years, namely low investment returns as a result of the economic downturn.

The Council's Capital Expenditure and Financing

9. The Council undertakes capital expenditure on long term assets. These activities may either be,
- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions) which has no resultant impact on the Council's borrowing need; or,
 - If insufficient funding is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.
10. The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

General Fund	2019/2020 Actual £m	2020/21 Budget £m	2020/21 Actual £m
Capital expenditure	97.407	221.052	97.121
Financed in year	63.539	58.464	62.767
Unfinanced Capital Expenditure	33.868	162.588	44.468

HRA	2019/2020 Actual £m	2020/21 Budget £m	2020/21 Actual £m
Capital expenditure	12.558	40.482	10.114
Financed in year	12.558	21.788	10.114
Unfinanced Capital Expenditure	0.000	18.694	0.000

The Council's Overall Borrowing Need

11. The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and resources used to pay for the capital spend. It represents the 2020/21 unfinanced capital expenditure (see above table) and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.
12. Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital programme, the treasury team organises the Council's cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Government through the Public Works

Loans Board, or the money markets), or utilising temporary cash resources within the Council.

The Capital Financing Requirement (CFR)

13. The Council's (non HRA) underlying borrowing need (CFR) is not allowed to rise indefinitely. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision (MRP), to reduce the CFR. This is effectively a repayment of the non-Housing Revenue Account (HRA) borrowing need. There is no statutory requirement to reduce the HRA CFR. This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.
14. The total CFR can also be reduced by,
 - The application of additional capital financing resources, such as unapplied capital receipts; or,
 - Charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP)
15. The Council's 2020/21 MRP Policy (as required by the MHCLG Guidance) was approved as part of the Treasury Management Strategy Statement on 4 February 2020.
16. The Council's CFR for the year is shown below and represents a key prudential indicator. It includes PFI and leasing schemes on the balance sheet, which increase the Council's borrowing need. No borrowing is actually required against these schemes as a borrowing facility is included within the contracts.

	2019/2020 Actual £m	2020/21 Indicator £m	2020/21 Actual £m
CFR – General Fund	446.484	581.433	473.779
CFR – HRA	111.865	126.558	107.865
Total CFR	558.349	707.991	581.644
Movement in CFR (from previous year)	11.498	149.642	23.295
Represented by			
Unfinanced Capital Expenditure (General Fund) as paragraph 10	33.868	162.588	44.468
Unfinanced Capital Expenditure (HRA) as paragraph 10	0.000	18.694	0.000
Total Unfinanced Capital Expenditure	33.868	181.282	44.468
Less MRP/VRP	(10.789)	(14.479)	(12.955)
Less Other Long Term Liabilities (PFI)	(3.581)	(3.581)	(4.218)
Less Other Financing Movements	(8.000)	(13.580)	(4.000)
Movement in CFR	11.498	149.642	23.295

17. Borrowing activity is constrained by prudential indicators for gross borrowing and the CFR, and by the authorised limit.

Gross Borrowing and the CFR

18. In order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the CFR in the preceding year (2020/21) plus the estimates of any additional capital financing requirement for the current (2021/22) and the next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure.
19. This indicator would allow the Council some flexibility to borrow in advance of its immediate capital needs in 2020/21.
20. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator. Following on from the under/over funding of the CFR, the table also details the Council's under borrowing position.

	2019/2020 Actual £m	2020/21 Budget £m	2020/21 Actual £m
Gross borrowing position	335.123	561.560	336.157
CFR	558.349	707.991	581.644
(Under)/over funding of CFR	(223.226)	(146.431)	(245.487)
PFI Liability	44.485	65.233	68.957
(Under)/Over Borrowing	(178.741)	(81.198)	(176.530)

21. To illustrate the benefit of having an under borrowed position: if the Council was to externally borrow £176.530m (over 25 years at current PWLB rate of 2.20%), this would result in external annual interest costs in the order of £3.884m. The interest foregone on the use of internal funds would be £0.406m (based on current average interest rate of 0.23% as at 31/03/2020. This produces a benefit of £3.478m.

Authorised Limit

22. The authorised limit is the affordable borrowing limit required by section 3 of the Local Government Act 2003. The limit is set based on the Operational Boundary allowing for unplanned and exceptional cash movements up to 2.5% above the Operational Boundary. Once this has been set, the Council does not have the power to borrow above this level. The table below demonstrates that during 2020/21 the Council has maintained gross borrowing within its authorised limit.

Operational Boundary

23. The operational boundary is the expected borrowing position of the Council during the year. The Operational Boundary is set based on the Capital Financing Requirement with additional capacity for day to day cashflow borrowing needs to allow for managing movements in cash. Periods when the actual position is either below or over the boundary are acceptable subject to the authorised limit not being breached.

	2020/21 £m
Authorised Limit	746.897
Maximum Gross Borrowing Position during the year	340.157
Operational Boundary	731.772
Average Gross Borrowing Position	338.645

Actual Financing Costs as a Proportion of Net Revenue Stream

24. This indicator identifies the trend in the cost of capital, (borrowing and other long-term obligations costs net of investment income), against the net revenue stream.

	2020/21 %
Financing Costs as a Proportion of Net Revenue Stream – GF	5.65
Financing Costs as a Proportion of Net Revenue Stream – HRA	13.72

Treasury Position as at 31 March 2021

25. The Council's treasury management debt and investment position is organised by the treasury management team (within the Accountancy Team), in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through member reporting detailed in the summary, and through officer activity detailed in the Council's Treasury Management Practices.

26. The Council's treasury position was as follows,

Debt Portfolio	31 March 2020			31 March 2021		
	Principal £m	Rate/ Return %	Average Life Years	Principal £m	Rate/ Return %	Average Life Years
Fixed Rate Funding						
PWLB	274.123	3.60	19.39	270.123	3.65	18.62
Market	61.000	4.37	38.57	61.000	4.37	37.57
Salix Funding	0.000	0.00	0.00	5.034	0.00	4.47
Variable Rate Funding						
PWLB	0.000	0.00	0.00	0.00	0.00	0.00
Market	0.000	0.00	0.00	0.00	0.00	0.00
Total Debt	335.123	3.74	21.13	336.157	3.78	20.00
Total Investments	79.519	0.90	0.42	142.452	0.23	0.22
Net Debt	255.604			193.705		

27. The maturity structure of the debt portfolio (in terms of percentages and absolute values) was as follows,

	31 March 2020 Actual £m	31 March 2021 Actual £m
Under 12 months	40.000	44.000
12 months and within 2 years	14.000	8.000
2 years and within 5 years	28.000	41.157
5 years and within 10 years	49.123	49.000
10 years and within 20 years	78.500	68.500
10 years and within 30 years	41.500	47.500

30 years and within 40 years	48.000	42.000
40 years and within 50 years	36.000	36.000
	335.123	336.157

	2020/21 Authorised Limits %		31 March 2021 Actual %	
	Upper Limit	Lower Limit	Next Call Date	Contractual Maturity
Under 12 months	25.00	0.00	13.09	2.97
12 months and within 2 years	25.00	0.00	2.38	2.38
2 years and within 5 years	45.00	0.00	12.24	10.46
5 years and within 10 years	75.00	0.00	14.58	14.58
10 years and above	100.00	0.00	57.71	69.61

28. The structure of the investment portfolio was as follows,

Investment Portfolio	Actual 31 March 2020 £m	Actual 31 March 2020 %	Actual 31 March 2021 £m	Actual 31 March 2021 %
Treasury Investments				
Banks	40.000	55.33	60.000	42.12
Building Societies	0.000	0.00	0.000	0.00
Local Authorities	5.000	6.29	25.500	17.90
MMFs	30.497	38.35	41.977	10.51
Call Account	0.023	0.03	14.975	29.47
Total Treasury Investments	79.519	100.00	142.452	100.00
Non-Treasury Investments				
Third Party Loans	5.003	100.00	10.944	77.60
Stone Circle Loan	0.000	0.00	3.160	22.40
Total Non-Treasury Investments	5.003	100.00	14.104	100.00
Treasury Investments	79.519	94.08	142.452	90.99
Non-Treasury Investments	5.003	5.92	14.104	9.01
Total - All Investments	84.522	100.00	156.556	100.00

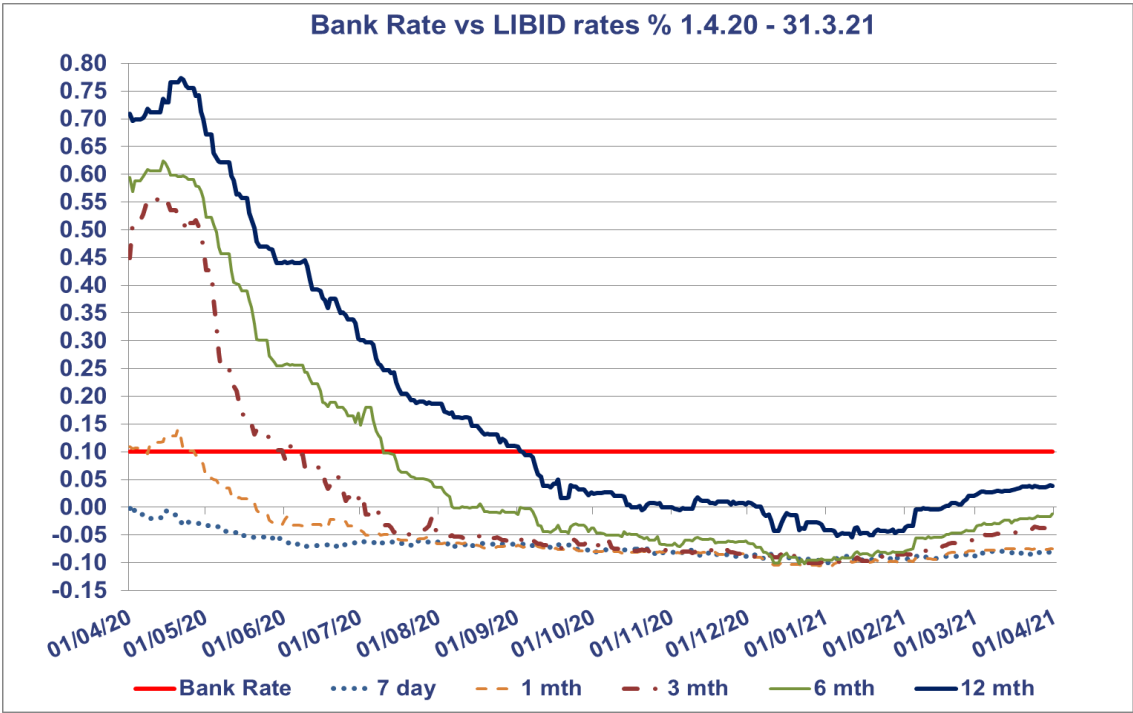
29. All treasury investments were placed with a maturity date of up to one year.

Treasury Management Strategy 2020/21

Investment Strategy and Control of Interest Rate Risk

30. The Bank of England Bank Rate and LIBID (London Interbank Bid Rate) rates for 2020/21 were as follows

	Bank Rate	7 Day	1 Month	3 Month	6 Month	12 Month
High	0.10%	0.00%	0.14%	0.56%	0.62%	0.77%
High Date	01/04/20	02/04/20	20/04/20	08/04/20	14/04/20	21/04/20
Low	0.10%	-0.10%	-0.11%	-0.10%	-0.10%	-0.05%
Low Date	01/04/20	31/12/20	29/12/20	23/12/20	21/12/20	11/01/21
Average	0.10%	-0.07%	-0.05%	0.01%	0.07%	0.17%
Spread	0.00%	0.10%	0.25%	0.66%	0.73%	0.83%



31. Investment returns which had been low during 2019/20, plunged during 2020/21 to near zero, or even into negative territory. Wiltshire Council managed to avoid negative interest rates, in part by taking advantage of the growth of inter local authority lending.

32. The expectation for interest rates within the treasury management strategy for 2020/21 was that Bank Rate be at 0.75% at the start of the year, before rising to end 2022/23 at 1.25%. This forecast was invalidated by the COVID-19 pandemic, which caused the Monetary Policy Committee (MPC) to cut Bank Rate in March, first to 0.25% and then to 0.10%, in order to counter the hugely negative impact of the national lockdown on large swathes of the economy. The Bank of England and the Government also introduced new programmes of supplying the banking system and the economy with massive amounts of cheap credit so that banks could help cash-starved businesses to survive the lockdown.
33. The Government supplied large amounts of finance to local authorities to pass on to businesses. This meant that for most of the year there was much more liquidity in financial markets than there was demand to borrow, with the consequent effect that investment earnings rates plummeted.
34. While the Council has taken a cautious approach to investing, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the financial crisis. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions.
35. Investment balances have been kept to a minimum through the agreed strategy of using reserves and balances to support internal borrowing, rather than borrowing externally from the financial markets. External borrowing would have incurred an additional cost, due to the differential between borrowing and investment rates. Such an approach has also provided benefits in terms of reducing the counterparty risk exposure, by having fewer investments placed in the financial markets.

Borrowing Strategy and Control of Interest Rate Risk

36. During 2020/21, the Council maintained an under-borrowed position. This meant that the capital borrowing need (the CFR) was not fully funded with loan debt, as cash supporting the Council's reserves, balances and cash flow was used as an interim measure. The strategy was prudent as investment returns were low and minimising counterparty risk on placing investments also needed to be considered.
37. The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this was and remains under constant review to avoid incurring higher borrowing costs in the future when the Council may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt. The Council's Section 151 Officer may then decide to enter into long term borrowing in the near future to secure lower rates of fixed debt to fund the Council's capital programme.
38. Against this background and the risks within the economic forecast, caution was adopted within the treasury operations. The treasury team monitored interest rates

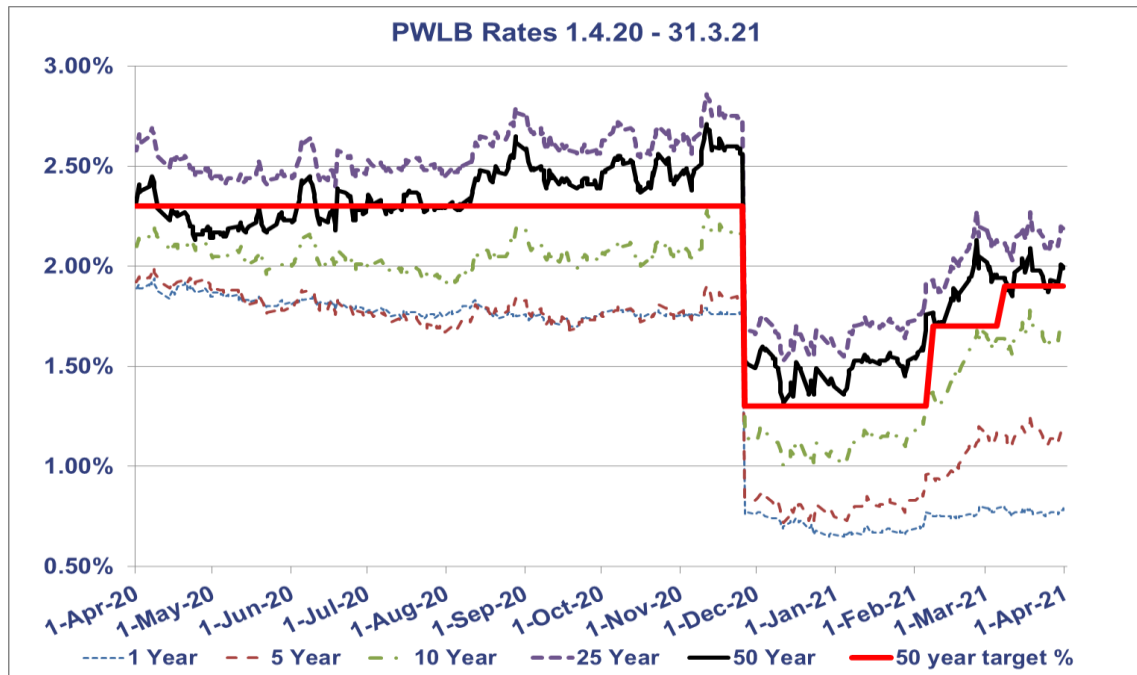
in financial markets and adopted a pragmatic strategy based upon the following principles to manage interest rate risks.

- if it had been felt that there was a significant risk of a sharp fall in long and short term rates, (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings would have been postponed, and potential rescheduling from fixed rate funding into short term borrowing would have been considered.
- if it had been felt that there was a significant risk of a much sharper rise in long and short term rates than initially expected, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position would have been re-appraised. Most likely, fixed rate funding would have been drawn whilst interest rates were lower than they were projected to be in the next few years.

39. Interest rate forecasts expected only gradual rises in medium and longer term fixed borrowing rates during 2020/21 and the two subsequent financial years.

40. The following table and graph show a PWLB rates for range of maturity periods, the average borrowing rates, the high and low points in rates, spreads and individual rates at the start and the end of the financial year.

PWLB Rates	1 Year	5 Year	10 Year	25 Year	50 Year
Low	0.65%	0.72%	1.00%	1.53%	1.32%
Low Date	04/01/2021	11/12/2020	11/12/2020	11/12/2020	11/12/2020
High	1.94%	1.99%	2.28%	2.86%	2.71%
High Date	08/04/2020	08/04/2020	11/11/2020	11/11/2020	11/11/2020
Average	1.43%	1.50%	1.81%	2.33%	2.14%
Spread	1.29%	1.27%	1.28%	1.33%	1.39%



41. PWLB rates are based on gilt (UK Government Bond) yields, through HM Treasury determining a specified margin to add to them. The main influences on gilt yields are Bank Rate, inflation expectations and movements in US treasury yields.

42. Gilt yields fell sharply from the start of 2020 and then spiked up during a financial markets melt down in March caused by the pandemic hitting western countries; this was rapidly countered by central banks flooding the markets with liquidity. Expectations of economic recovery started once the UK vaccination programme started making rapid progress in the new year of 2021; gilt yields and PWLB rates started rising sharply as confidence in economic recovery rebounded. Financial markets also expected Bank Rate to rise quicker than in the forecast tables in this report.

43. Current margins over gilt yields are as follows,

- PWLB Standard Rate = gilt plus 100 basis points
- PWLB Certainty Rate = gilt plus 80 basis points
- PWLB HRA Standard Rate = gilt plus 100 basis points
- PWLB HRA Certainty Rate = gilt plus 80 basis points
- Local Infrastructure Rate = gilt plus 60 basis points

44. There is likely to be only a gentle rise in gilt yields and PWLB rates over the next three years as Bank Rate is not forecast to rise from 0.10% until March 2024, as the Bank of England has clearly stated that it will not raise rates until inflation is sustainably above its target of 2%; this sets a high bar for Bank Rate to start rising.

Borrowing Outturn

45. A summary of the Council's borrowing position is detailed at Appendix 1.
46. Due to low investment returns and counterparty risk, no new borrowing was undertaken during the year.
47. One naturally maturing loan was repaid during 2020/21 as follows,

Pool	Lender	Principal £m	Type	Interest Rate %	Loan Term
HRA	PWLB	4.000	Fixed Rate Maturity	2.21	9 years

Borrowing in Advance of Need

48. The Council has not borrowed more than, or in advance of its needs, purely to profit from the investment of the extra sums borrowed.

Debt Rescheduling

49. No debt rescheduling was undertaken during the year, as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

Investment Outturn

50. The Council's investment policy is governed by MHCLG investment guidance, which has been implemented in the annual investment strategy approved by the Council on 4 February 2020. This policy sets out the approach for choosing investment counterparties and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data.
51. The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.
52. The Council maintained an average balance of £149.222m of internally managed funds. The difference between the balances available for investment and the actual investments is due to the varying level of working capital (creditors, debtors and other long term liabilities) and internal borrowing.
53. The internally managed funds earned an average rate of 0.23%. The comparable performance indicator is the average 3 month LIBID rate, which was 0.015%.
54. The Council's total interest received from investments for 2020/21 was £0.421m. The Council's budgeted investment return for 2020/21 was £0.940m, therefore forecast investment income (interest) for the year to date is £0.519m under achieved against budget. The interest received was lower than budgeted due to

the effect of the pandemic on interest rate levels, which were much lower than forecast.

55. The position on interest income must be compared with external interest costs payable. The Council paid external interest costs of £12.744m against a budget of £13.299m. This is a £0.555m underspend against budget.
56. The net underspend in respect of interest receivable/payable is £0.036m. This has been accounted for in the overall revenue outturn position for 2020/21.
57. A summary of the Council's investment position as at 31 March 2021 is detailed at Appendix 2.

Breach of Counterparty Limit - HSBC

58. During the year, due to the exceptionally low interest rates, higher balances were occasionally left in the HSBC current account overnight than previous years. Due to the level of interest rates it was not financially beneficial to place funds with a Money Market Fund, when they would be required within the next few days, as the interest received would have been less than the cost of the CHAPS fee charged for transferring the funds.
59. In February 2021, a balance of £7.8m was left in the HSBC current account, and an unexpected large receipt of approximately £3.7m came in, resulting in a balance of £11.5m in the HSBC current account overnight. This breach of £1.5m (over the £10m counterparty limit) was rectified immediately the following morning.
60. To prevent the above situation recurring and being exposed to counterparty risk, a decision was made to leave lower balances in the account overnight, with the impact of additional CHAPS charges above the value of the interest earned. The risk will also be mitigated through improved communication between relevant departments to assess the impact of significant income receipts.

Economic Background and Interest Rate Forecast

61. Financial year 2020/21 will go down in history as being the year of the COVID_19 pandemic. The first national lockdown in late March 2020 did huge damage to an economy that was unprepared for such an eventuality. This caused an economic downturn that exceeded the one caused by the financial crisis of 2008/09.
62. A short second lockdown in November did relatively little damage but by the time of the third lockdown in January 2021, businesses and individuals had become more resilient in adapting to working in new ways during a three month lockdown so much less damage than was caused than in the first one.

63. The advent of vaccines starting in November 2020, were a game changer. The way in which the UK and US have led the world in implementing a fast programme of vaccination which promises to lead to a return to something approaching normal life during the second half of 2021, has been instrumental in speeding economic recovery and the reopening of the economy.
64. In addition, the household saving rate has been exceptionally high since the first lockdown in March 2020 and so there is plenty of pent-up demand and purchasing power stored up for services in the still-depressed sectors like restaurants, travel and hotels as soon as they reopen. It is therefore expected that the UK economy could recover its pre-pandemic level of economic activity during quarter 1 of 2022.
65. Both the Government and the Bank of England took rapid action in March 2020 at the height of the crisis to provide support to financial markets to ensure their proper functioning, and to support the economy and to protect jobs.
66. The MPC cut Bank Rate from 0.75% to 0.25% and then to 0.10% in March 2020 and embarked on a £200 billion programme of quantitative easing (purchase of gilts so as to reduce borrowing costs throughout the economy by lowering gilt yields). The MPC increased quantitative easing by £100bn in June and by £150bn in November to a total of £895bn.
67. While Bank Rate remained unchanged for the rest of the year, financial markets were concerned that the MPC could cut Bank Rate to a negative rate; this was firmly discounted at the February 2021 MPC meeting when it was established that commercial banks would be unable to implement negative rates for at least six months – by which time the economy was expected to be making a strong recovery and negative rates would no longer be needed.
68. The Chancellor has implemented repeated rounds of support to businesses by way of cheap loans and other measures and has protected jobs by paying for workers to be placed on furlough. This support has come at a huge cost in terms of the Government's budget deficit, so that in 2021/22, the Debt to GDP ratio reaches around 100%.
69. In March 2021 the budget increased fiscal support to the economy and employment during 2021 and 2022, followed by substantial tax rises in the following three years to help to pay the cost for the pandemic. This will help further to strengthen the economic recovery and return the government's finances to a balanced budget on a current expenditure and income basis in 2025/26. This will stop the Debt to GDP ratio rising further from 100%.
70. A current area of concern is that the government's debt is now twice as sensitive to interest rate rises as before the pandemic due to quantitative easing operations substituting fixed long-term debt for floating rate debt; there is, therefore, much incentive for the Government to promote Bank Rate staying low.

Overview & Scrutiny Engagement

71. Regular reports are taken to Overview & Scrutiny through the Financial Planning Task Group relating to the Council's financial position

Safeguarding Implications

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

Public Health Implications

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

Procurement Implications

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

Equalities Impact of the Proposal

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

Environmental and Climate Change Considerations

76. Wiltshire Council will not intentionally invest in any investment that is not ethical and would not be consistent with our environmental and social policy objectives.

77. Where appropriate, the Council will consider investments that deliver environmental and social benefits, whilst maintaining our Security, Liquidity and Yield criteria.

Risks Assessment

78. All investments have been at fixed rates during the period. The Council's current average interest rate on long term debt is 3.78%, which compares favourably with similar rates of other UK local authorities.

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

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

Financial Implications

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

Workforce Implications

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

Legal Implications

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

Proposals

84. Cabinet is requested to:

- a) Note that the contents of this report are in line with the Treasury Management Strategy 2020/21; and to
- b) Recommend to Full Council consideration of this report.

Andy Brown

Corporate Director of Resources & Deputy Chief Executive (S.151 Officer)

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Appendices

Appendix 1 Borrowing Portfolio
Appendix 2 Investment Portfolio

Borrowing Portfolio as at 31 March 2021

Lender	Start Date	Maturity Date	Amount £m	Interest Rate %	Annual Interest £m
Public Works Loan Board (PWLB)					
PWLB	15/02/2010	01/06/2021	2.000	4.33	0.087
PWLB	28/03/2012	28/03/2022	8.000	2.40	0.192
PWLB	28/03/2012	28/03/2023	8.000	2.56	0.205
PWLB	15/02/2010	01/06/2023	2.000	4.45	0.890
PWLB	28/03/2012	28/03/2024	8.000	2.70	0.216
PWLB	15/02/2010	01/06/2024	2.000	4.49	0.090
PWLB	28/03/2012	28/03/2025	8.000	2.82	0.226
PWLB	14/08/2001	01/12/2025	0.123	4.875	0.006
PWLB	28/03/2012	28/03/2026	10.000	2.92	0.292
PWLB	15/02/2010	01/06/2026	2.000	4.54	0.091
PWLB	28/03/2012	28/03/2027	8.000	3.01	0.241
PWLB	21/08/2002	01/06/2027	4.000	4.75	0.190
PWLB	28/03/2012	28/03/2028	6.000	3.08	0.185
PWLB	29/07/1999	01/06/2028	1.000	4.75	0.048
PWLB	15/02/2010	01/06/2028	2.000	4.56	0.091
PWLB	28/03/2012	28/03/2029	7.000	3.15	0.221
PWLB	29/07/1999	01/06/2029	1.000	4.75	0.048
PWLB	28/03/2012	28/03/2030	8.000	3.21	0.257
PWLB	29/07/1999	01/06/2030	1.000	4.75	0.046
PWLB	20/05/2005	01/06/2030	2.000	4.45	0.089
PWLB	05/12/2005	18/03/2031	5.000	4.25	0.213
PWLB	28/03/2012	28/03/2031	2.000	3.26	0.065
PWLB	29/07/1999	01/06/2031	1.000	4.75	0.048
PWLB	20/05/2005	01/06/2031	2.000	4.45	0.089
PWLB	21/11/2005	18/09/2031	2.000	4.25	0.085
PWLB	28/03/2012	28/03/2032	5.000	3.30	0.165
PWLB	20/05/2005	01/06/2032	2.000	4.45	0.089
PWLB	04/11/1999	01/12/2032	1.500	4.625	0.069
PWLB	28/03/2012	28/03/2033	6.000	3.34	0.200
PWLB	20/05/2005	01/06/2033	2.000	4.45	0.089
PWLB	15/11/1999	19/09/2033	1.000	4.25	0.042
PWLB	28/03/2012	28/03/2034	7.000	3.37	0.236
PWLB	20/05/2005	01/06/2034	2.000	4.45	0.089
PWLB	15/11/1999	18/09/2034	1.000	4.25	0.043
PWLB	21/11/2005	18/09/2034	5.000	4.25	0.213
PWLB	28/03/2012	28/03/2035	2.000	3.40	0.068
PWLB	14/06/2005	14/06/2035	5.000	4.35	0.218
PWLB	15/11/1999	18/09/2035	1.000	4.25	0.043

Lender	Start Date	Maturity Date	Amount £m	Interest Rate %	Annual Interest £m
Public Works Loan Board (PWLB) – Continued					
PWLB	21/11/2005	18/09/2035	5.000	4.25	0.213
PWLB	15/11/1999	18/09/2036	0.500	4.25	0.021
PWLB	15/11/1999	18/09/2036	0.500	4.25	0.021
PWLB	28/03/2012	28/03/2037	9.000	3.44	0.310
PWLB	11/01/2006	01/12/2037	4.000	4.00	0.160
PWLB	11/01/2006	01/12/2038	4.000	4.00	0.160
PWLB	15/02/2010	01/06/2041	2.000	4.57	0.091
PWLB	11/08/2006	01/12/2041	3.000	4.35	0.131
PWLB	15/02/2010	01/06/2042	2.000	4.57	0.091
PWLB	11/08/2006	01/12/2042	2.000	4.35	0.087
PWLB	11/08/2006	01/12/2043	2.000	4.35	0.087
PWLB	06/09/2006	01/12/2044	3.000	4.25	0.128
PWLB	06/09/2006	01/12/2045	3.000	4.25	0.128
PWLB	29/06/2006	18/09/2046	4.000	4.45	0.178
PWLB	30/08/2006	01/12/2046	2.000	4.25	0.085
PWLB	29/06/2006	18/09/2047	4.000	4.45	0.178
PWLB	30/08/2006	01/12/2047	2.000	4.25	0.085
PWLB	09/10/1998	18/09/2048	1.000	4.50	0.045
PWLB	29/06/2006	18/09/2048	3.500	4.45	0.156
PWLB	30/08/2006	01/12/2048	2.000	4.25	0.085
PWLB	09/10/1998	18/09/2049	1.000	4.50	0.045
PWLB	29/06/2006	18/09/2049	3.000	4.45	0.134
PWLB	30/08/2006	01/12/2049	2.000	4.25	0.085
PWLB	30/08/2006	01/06/2050	5.000	4.25	0.213
PWLB	17/09/1998	18/09/2050	1.000	5.125	0.051
PWLB	17/09/1998	18/09/2051	1.000	5.125	0.051
PWLB	07/03/2007	01/06/2052	2.000	4.25	0.085
PWLB	23/07/1998	03/06/2052	1.000	5.50	0.055
PWLB	07/03/2007	01/06/2053	2.000	4.25	0.085
PWLB	23/07/1998	02/06/2053	1.000	5.50	0.055
PWLB	19/06/1998	01/06/2054	1.000	5.375	0.054
PWLB	19/06/1998	01/06/2055	1.000	5.375	0.054
PWLB	21/06/2006	01/06/2055	2.000	4.30	0.086
PWLB	22/06/2006	18/09/2055	4.000	4.35	0.174
PWLB	19/06/1998	01/06/2056	1.500	5.375	0.081
PWLB	21/06/2006	01/06/2056	3.000	4.30	0.129
PWLB	22/06/2006	01/06/2056	6.000	4.35	0.261
PWLB	02/10/1997	25/09/2057	1.500	6.625	0.99
PWLB	12/03/2019	13/03/2063	10.000	2.36	0.236
PWLB	12/03/2019	13/03/2064	10.000	2.36	0.236
PWLB	12/03/2019	13/03/2065	10.000	2.36	0.236
TOTAL PWLB LOANS			270.123		9.913

Lender	Start Date	Maturity Date	Amount £m	Interest Rate %	Annual Interest £m
Market Loans					
Barclays Bank	03/12/2004	03/12/2054	10.000	4.45	0.445
FMS Wermanagement	07/12/2004	08/12/2053	10.000	4.45	0.445
Depfa Deutsche Pfandbriefbank	10/12/2004	10/12/2052	10.000	4.45	0.445
Dexia Credit Local	10/12/2004	11/12/2051	10.000	4.45	0.445
Barclays Bank	31/08/2005	31/08/2055	5.000	3.99	0.200
Dexia Credit Local	20/02/2006	18/02/2066	6.000	4.45	0.267
Beyern LB	05/03/2007	07/03/2067	4.000	4.2	0.168
Barclays Bank	31/07/2007	01/08/2067	6.000	4.21	0.253
TOTAL MARKET LOANS			61.000		2.667
Salix Loans					
SALIX1	22/11/2019	01/04/2025	0.930	0.00	0.000
SALIX2	02/03/2020	02/03/2026	4.104	0.00	0.000
TOTAL SALIX LOANS			5.034		0.000
TOTAL - ALL LOANS			336.157		12.580

* Annual interest = Total amount of annual interest payable per loan outstanding as at 31 March 2021.

This will not equal the amount of interest paid during 2020/21 – as the total loan portfolio has changed during the year.

Appendix 2

Investment Portfolio as at 31 March 2021 (compared to the counterparty list)

Borrower	Amount £m	Interest Rate %	Start Date	Maturity Date	LAS Credit Rating **
DBS Bank Ltd	10.000	0.06	23/12/2020	23/06/2021	Orange – 12 Months
Qatar National Bank	10.000	0.28	20/01/2021	20/07/2021	Red – 6 Months
Landesbank Baden-Wuerttemberg	10.000	0.06	18/01/2021	18/05/2021	Red – 6 Months
Landesbank Hessen-Thuringen	10.000	0.04	20/01/2021	20/04/2021	Orange – 12 Months
Australia and New Zealand Banking Group	10.000	0.07	08/02/2021	08/06/2021	Orange – 12 Months
Goldman Sachs	10.000	0.145	03/02/2021	03/08/2021	Red – 6 Months
Northumberland PCC	6.500	0.10	24/03/2021	07/05/2021	Yellow – 5 Years
Surrey County Council	5.000	0.15	08/03/2021	08/06/2021	Yellow – 5 Years
Wirral Metropolitan Borough Council	5.000	0.11	09/03/2021	09/06/2021	Yellow – 5 Years
Warwickshire PCC	4.000	0.14	26/03/2021	26/07/2021	Yellow – 5 Years
Telford & Wrekin Council	5.000	0.14	18/03/2021	19/07/2021	Yellow – 5 Years
Handelsbanken plc (Call Account)	14.975	0.10	*	35 Days Notice	Orange – 12 Months
Black Rock Money Market Fund	0.000	0.01	*	*	AAA
JP Morgan Money Market Fund	0.000	0.01	*	*	AAA
Federated Money Market Fund	0.000	0.01	*	*	AAA
Goldman Sachs Money Market Fund	0.000	0.01	*	*	AAA
Aberdeen Investments Liquidity Fund	14.267	0.01	*	*	AAA
BNP Money Market Fund	27.710	0.02	*	*	AAA
Total	142.452				

* Money Market Funds/Call Account – 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.

** For explanation please see following page.

Link Asset Services 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.