

## **Appendix A: Treasury Management Annual Report 2019/20**

**Wiltshire Council**

**Cabinet**

**14 July 2020**

**Subject: Treasury Management Outturn Report 2019/2020**

**Cabinet member: Cllr Pauline Church – Cabinet member for Finance and Procurement, and Commercial Investment**

**Key Decision: Non Key**

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### **Executive Summary**

The Council has adopted a Treasury Management Strategy and an Annual Investment Strategy for 2019/2020 at its meeting on 5 February 2019.

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 2019 to 31 March 2020.

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 £153.874 million. This has avoided the Council having to pay out external interest costs in the order of £2.735 million. This under borrowed position is factored into the revenue budget. Against budget, there is a net underspend in respect of the net position on interest receivable/payable of £0.345 million. This has been accounted for in the overall revenue outturn position for 2019/2020 reported to Cabinet at its meeting on 9 June 2020.

The Council did not breach any of its performance indicators during 2019/2020.

### **Proposals**

Cabinet is requested to:

- a) Note that the contents of this report are in line with the Treasury Management Strategy 2019/2020.

**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 2019/2020.

**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 2019/2020. 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 2019/2020 the minimum reporting requirements were that the Council should receive the following reports,
  - an annual treasury strategy in advance of the year (05/02/2019)
  - a mid-year treasury update report (19/11/2019)
  - 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 2019/2020, 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	2018/2019 Actual £ million	2019/2020 Original £ million	2019/2020 Actual £ million
<b>Capital Expenditure</b>			
General Fund	91.308	156.991	97.407
HRA	14.980	15.944	12.558
<b>Total</b>	<b>106.288</b>	<b>172.935</b>	<b>109.965</b>
<b>Capital Financing Requirement</b>			
General Fund	402.120	466.056	418.361
HRA	119.865	123.122	115.121
<b>Total</b>	<b>521.985</b>	<b>589.178</b>	<b>533.482</b>
Gross Borrowing	343.123	366.455	335.123
External Debt	343.323	366.475	335.143
PFI Liability	48.066	45.920	44.485
<b>Over/(under) borrowing</b>	<b>(130.796)</b>	<b>(176.803)</b>	<b>(153.874)</b>
<b>Investments</b>			
Longer than one year	0.000	0.000	0.000
Under one year	101.913	66.203	79.519
<b>Total</b>	<b>101.913</b>	<b>66.203</b>	<b>79.519</b>
<b>Net Borrowing</b>	<b>241.210</b>	<b>300.252</b>	<b>255.604</b>

7. Other prudential and treasury indicators are to be found in the main body of the report.
8. The financial year 2019/2020 continued the challenging investment environment of previous years, namely low investment returns.

### 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.

<b>General Fund</b>	<b>2018/2019 Actual £ million</b>	<b>2019/2020 Original Budget £ million</b>	<b>2019/2020 Actual £ million</b>
Capital expenditure	91.308	156.991	97.407
Financed in year	89.281	78.058	63.539
<b>Unfinanced Capital Expenditure</b>	<b>2.027</b>	<b>78.933</b>	<b>33.868</b>

<b>HRA</b>	<b>2018/2019 Actual £ million</b>	<b>2019/2020 Original Budget £ million</b>	<b>2019/2020 Actual £ million</b>
Capital expenditure	14.980	15.944	12.558
Financed in year	14.980	12.687	12.558
<b>Unfinanced Capital Expenditure</b>	<b>0.000</b>	<b>3.257</b>	<b>0.000</b>

### **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 2019/2020 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. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. 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 2019/2020 MRP Policy (as required by the MHCLG Guidance) was approved as part of the Treasury Management Strategy Statement on 5 February 2019.
16. The Councils CFR for the year is shown below and represents a key prudential indicator. It includes PFI and leasing schemes on the balance sheet., which increases the Council's borrowing need. No borrowing is actually required against these schemes as a borrowing facility is included in the contract.

	<b>2019/2020 Estimate £ million</b>	<b>2019/2020 Actual £ million</b>
CFR – General Fund	466.056	418.361
CFR – HRA	123.122	115.121
<b>Total CFR</b>	<b>589.178</b>	<b>533.482</b>
<b>Movement in CFR (from 2018/2019)</b>	<b>38.207</b>	<b>11.498</b>
<b>Represented by</b>		
Net Financing Need (General Fund)	78.933	33.868
Net Financing Need (HRA)	3.257	0.000
<b>Total Net Financing Need</b>	<b>82.190</b>	<b>33.868</b>
Less MRP/VRP	(12.088)	(10.789)
Less Other Long Term Liabilities (PFI)	(2.895)	(3.581)
Less Other Financing Movements	(29.000)	(8.000)
<b>Movement in CFR</b>	<b>38.207</b>	<b>11.498</b>

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 (2018/2019) plus the estimates of any additional capital financing requirement for the current (2019/2020) 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 2019/2020.
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.

	<b>2018/2019 Actual £ million</b>	<b>2019/2020 Budget £ million</b>	<b>2019/2020 Actual £ million</b>
Gross borrowing position	343.123	366.455	335.123
CFR	521.985	589.178	533.482
<b>(Under)/over funding of CFR</b>	<b>(178.862)</b>	<b>(222.723)</b>	<b>(198.359)</b>
PFI Liability	48.066	45.920	44.485
<b>(Under)/Over Borrowing</b>	<b>(130.796)</b>	<b>(176.803)</b>	<b>(153.874)</b>

21. To illustrate the benefit of having an under borrowed position: if the Council was to externally borrow £153.874 million (over 25 years at current PWLB rate of 2.68%), this would result in external annual interest costs in the order of £4.124 million. The interest foregone on the use of internal funds would be £1.389 million (based on current average interest rate of 0.90% as at 31/03/2020). This produces a benefit of £2.735 million.

### **Authorised Limit**

22. The authorised limit is the affordable borrowing limit required by s3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level. The table below demonstrates that during 2019/2020 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. Periods when the actual position is either below or over the boundary are acceptable subject to the authorised limit not being breached.

## 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.

	2019/2020 £ million
Authorised Limit	624.497
Maximum Gross Borrowing Position during the year	343.123
Operational Boundary	612.273
Average Gross Borrowing Position	343.057
Financing Costs as a Proportion of Net Revenue Stream – GF	5.77%
Financing Costs as a Proportion of Net Revenue Stream – HRA	13.88%

## Treasury Position as at 31 March 2020

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. At the end of 2019/2020 the Council's treasury position is as follows,

Debt Portfolio	31 March 2019			31 March 2020		
	Principal £ million	Rate/ Return %	Average Life Years	Principal £ million	Rate/ Return %	Average Life Years
<b>Fixed Rate Funding</b>						
PWLB	282.123	3.62	20.15	274.123	3.60	19.39
Market	61.000	4.37	39.57	61.000	4.37	38.57
<b>Variable Rate Funding</b>						
PWLB	0.000	0.00	0.00	0.000	0.00	0.00
Market	0.000	0.00	0.00	0.000	0.00	0.00
<b>Total Debt</b>	<b>343.123</b>	<b>3.76</b>	<b>21.89</b>	<b>335.123</b>	<b>3.74</b>	<b>21.13</b>
CFR	521.985			533.482		
PFI Liability	48.066			44.485		
<b>Over/(Under) Borrowing</b>	<b>(130.796)</b>			<b>(153.874)</b>		
Total Investments	101.913	0.97	0.53	79.519	0.90	0.42
<b>Net Debt</b>	<b>241.210</b>			<b>255.604</b>		



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

	31 March 2019 Actual £ million	2019/2020 Original Limits £ million	31 March 2020 Actual £ million
Under 12 months	42.000	91.614	40.000
12 months and within 2 years	10.000	91.614	14.000
2 years and within years	28.000	164.905	28.000
5 years and within 10 years	50.123	274.841	49.123
10 years and above	213.000	366.455	204.000
	<b>343.123</b>		<b>335.123</b>

	2019/2020 Authorised Limits %		31 March 2020 Actual %	
	Upper Limit	Lower Limit	Next Call Date	Contractual Maturity
Under 12 months	25.00	0.00	11.94	1.19
12 months and within 2 years	25.00	0.00	4.18	2.98
2 years and within 5 years	45.00	0.00	8.36	8.36
5 years and within 10 years	75.00	0.00	14.66	14.66
10 years and above	100.00	0.00	60.86	72.81

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

Investment Portfolio	Actual 31 March 2019 £ million	Actual 31 March 2019 %	Actual 31 March 2020 £ million	Actual 31 March 2020 %
<b>Treasury Investments</b>				
Banks	48.000	47.10	40.000	55.33
Building Societies – Rated	0.000	0.00	0.000	0.000
Local Authorities	39.000	38.27	5.000	6.29
MMFs	14.902	14.62	30.497	38.35
Call Account	0.011	0.01	0.023	0.03
<b>Total Treasury Investments</b>	<b>101.913</b>	<b>100.00</b>	<b>79.519</b>	<b>100.00</b>

<b>Non-Treasury Investments</b>				
Third Party Loans	0.000	0.00	0.000	0.00
Subsidiaries	0.000	0.00	0.000	0.00

Companies	0.000	0.00	0.000	0.00
<b>Total Non-Treasury Investments</b>	<b>0.000</b>	<b>0.00</b>	<b>0.000</b>	<b>0.00</b>

Treasury Investments	101.913	100.00	101.913	100.00
Non-Treasury Investments	0.000	0.00	0.000	0.00
<b>Total - All Investments</b>	<b>101.913</b>	<b>100.00</b>	<b>79.519</b>	<b>100.00</b>

29. All treasury investments were for up to one year.

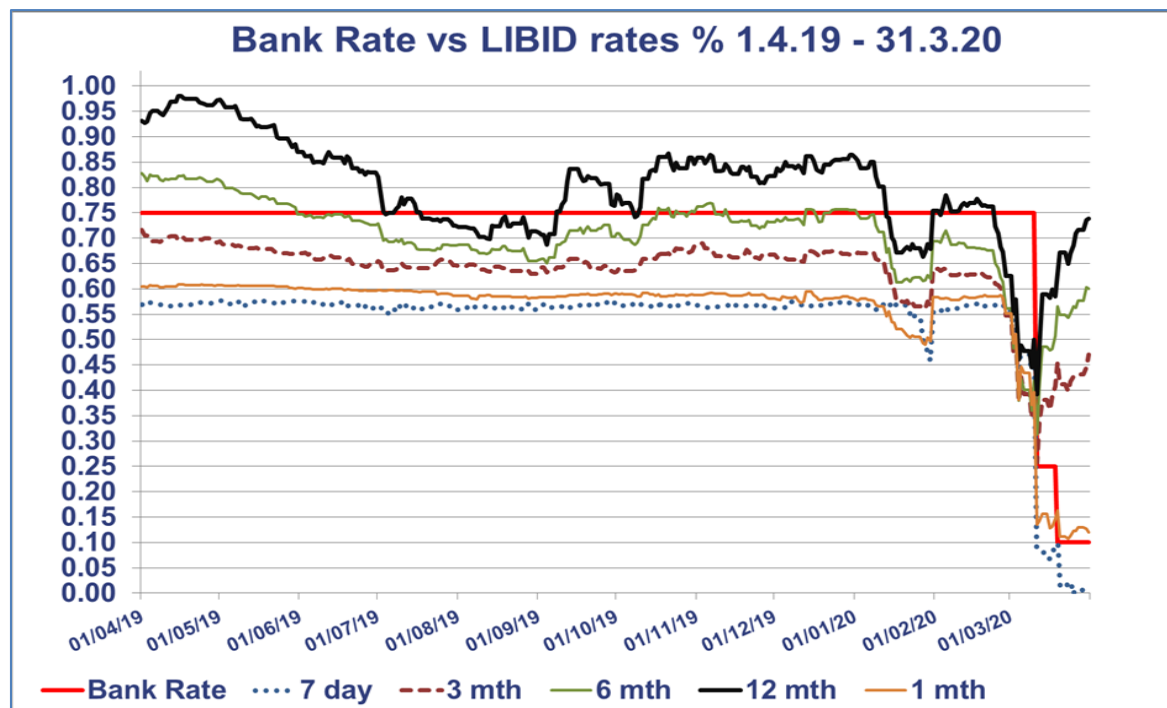
### Treasury Management Strategy 2019/2020

#### Investment Strategy and Control of Interest Rate Risk

30. Investment returns remained low during 2019/2020.

31. The Bank of England Bank Rate and LIBID (London Interbank Bid Rate) rates for 2019/2020 were as follows

	Bank Rate	7 Day	1 Month	3 Month	6 Month	12 Month
<b>High</b>	0.75%	0.58%	0.61%	0.72%	0.983%	0.98%
<b>High Date</b>	01/04/19	09/05/19	15/04/19	01/04/19	01/04/19	15/04/19
<b>Low</b>	0.10%	0.00%	0.11%	0.26%	0.31%	0.39%
<b>Low Date</b>	19/03/20	25/03/20	23/03/20	11/03/20	11/03/20	11/03/20
<b>Average</b>	0.72%	0.53%	0.56%	0.63%	0.70%	0.80%
<b>Spread</b>	0.65%	0.58%	0.50%	0.46%	0.52%	0.59%



32. The expectation for interest rates within the treasury management strategy for 2019/2020 was that Bank Rate would stay at 0.75% during the year. It was not expected that the MPC would be able to deliver on an increase in Bank Rate until the Brexit issue was finally settled.
33. Rising concerns over the possibility that the UK could leave the EU at the end of October 2019 caused longer term investment rates to be on a falling trend for most of April to September. Rates rose after the end of October deadline was rejected by the Commons, but fell back again in the new year, before recovering again after the 31 January departure of the UK from the EU. When the coronavirus outbreak hit the UK later in the financial year, rates initially plunged but then rose again sharply, due to a shortage of liquidity in the financial markets.
34. Short term investment interest rates were fairly flat for most of the year until the two cuts in Bank Rate in March 2020 caused them to fall sharply.
35. 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.
36. 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**

37. During 2019/2020, 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.
38. The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this was kept under 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.
39. Against this background and the risks within the economic forecast, caution was adopted within the treasury operations. The treasury team monitored interest rates

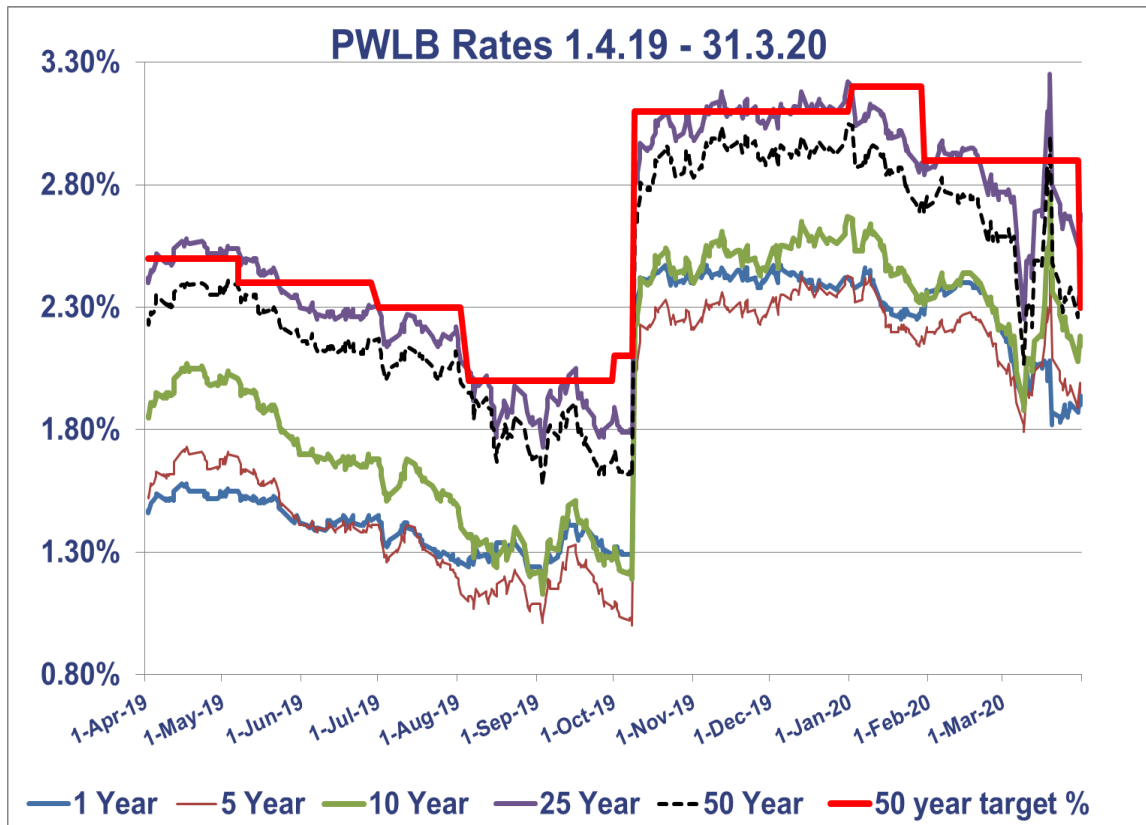
in financial markets and adopted a pragmatic strategy based upon the following principles to manage interest rate risks.

- 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.

40. Interest rate forecasts expected only gradual rises in medium and longer term fixed borrowing rates during 2019/2020 and the two subsequent financial years.

41. The following table and graph for PWLB rates shows a selection 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.

<b>PWLB Rates</b>	<b>1 Year</b>	<b>5 Year</b>	<b>10 Year</b>	<b>25 Year</b>	<b>50 Year</b>
<b>01/04/2019</b>	1.46%	1.52%	1.84%	2.41%	2.24%
<b>31/03/2020</b>	1.90%	1.95%	2.14%	2.65%	2.39%
<b>Low</b>	1.17%	1.00%	1.13%	1.73%	1.57%
<b>Low Date</b>	03/09/2019	08/10/2019	03/09/2019	03/09/2019	03/09/2019
<b>High</b>	2.47%	2.45%	2.76%	3.25%	3.05%
<b>High Date</b>	21/10/2019	19/03/2020	19/03/2020	19/03/2020	31/12/2019
<b>Average</b>	1.83%	1.77%	2.00%	2.56%	2.40%



42. PWLB rates are based on, and are determined by gilt (UK Government Bond) yields, through HM Treasury determining a specified margin to add to gilts. Gilt yields were on a generally falling trend during over the last year, up until the corona virus hit western economies. Since then, gilt yields have fallen sharply to unprecedented lows, as investors have panicked in selling shares in anticipation of impending recession, and moved cash into safe havens i.e. Government bonds. However, major western central banks also started quantitative easing purchases of government bonds, which will act to maintain downward pressure on government bond yields at a time when there is going to be a huge and quick expansion of government expenditure, financed by issuing government bonds; (this would normally cause bond yields to rise).
43. On 31 March, all gilt yields from 1 to 5 years were between 0.12 – 0.20% and 25 year yields were at 0.83%.
44. HM Treasury has imposed two changes in the margins over gilt yields for PWLB rates in 2019/2020 without any prior warning; the first on 9 October 2019, added an additional 1.00% margin over gilts to all PWLB rates. That increase was then partially reversed for some forms of borrowing on 11 March 2020, at the same time as the Government announced in the Budget a programme of increased spending on infrastructure.

45. Following the changes on 11 March 2020 in margins over gilt yields, the current situation is as follows,

- PWLB Standard Rate = Gilt plus 200 basis points
- PWLB Certainty Rate = Gilt plus 180 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

46. It also announced that there would be a consultation with local authorities on possibly further amending these margins; this ends on 4 June. It is clear that the Treasury intends to put a stop to local authorities borrowing money from the PWLB to purchase commercial property if the aim is solely to generate an income stream.

47. There is likely to be little upward movement in PWLB rates over the next two years as it will take national economies a prolonged period to recover all the momentum they will lose in the sharp recession that will be caused during the coronavirus shut down period. Inflation is also likely to be very low during this period and could even turn negative in 2020/2021.

### **Borrowing Outturn**

48. A summary of the Council's borrowing position is detailed at Appendix 1.

49. Due to low investment returns and counterparty risk, no new borrowing was undertaken during the year.

50. One naturally maturing loan was repaid during 2019/2020 as follows,

<b>Pool</b>	<b>Lender</b>	<b>Principal £ million</b>	<b>Type</b>	<b>Interest Rate %</b>	<b>Maturity</b>
HRA	PWLB	8.000	Fixed Rate Maturity	1.99	8 years

### **Borrowing in Advance of Need**

51. 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**

52. 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**

53. 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 5 February 2019. 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.
54. The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.
55. The Council maintained an average balance of £125.514 million 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.
56. The internally managed funds earned an average rate of 0.90%. The comparable performance indicator is the average 3 month LIBID rate, which was 0.63%.
57. The Council's total interest received from investments for 2019/2020 was £0.819 million. The Council's budgeted investment return for 2019/2020 was £0.940 million, therefore forecast investment income (interest) for the year to date is £0.121 million under achieved against budget. The interest received was lower than budgeted due to the effect of lower balances for investment than an originally estimated and an increased level of internal borrowing.
58. The position on interest income must be compared with external interest costs payable. The Council paid external interest costs of £12.833 million against a budget of £13.299 million. This is a £0.466 million underspend against budget.
59. The net underspend in respect of interest receivable/payable is £0.345 million. This has been accounted for in the overall revenue outturn position for 2019/2020.
60. A summary of the Council's investment position as at 31 March 2020 is detailed at Appendix 2.

## **Economic Background and Interest Rate Forecast**

61. The main issue in 2019 was the reaching an agreement on the way forward for the UK over Brexit. Following the general election in December 2019, the UK left the EU on 31 January 2020. However, this still leaves much uncertainty as to whether there will be a reasonable trade deal achieved by the target deadline of the end of 2020. It is also unclear as to whether the coronavirus outbreak may yet impact on this deadline; the second and third rounds of negotiations have already had to be cancelled due to the virus.

62. Economic growth in 2019 has been very volatile,
- Quarter 1 – unexpectedly strong at 0.50%
  - Quarter 2 – weak at -0.20%,
  - Quarter 3 – bouncing back at +0.50%
  - Quarter 4 – flat at 0.00%
  - Year on year growth = 1.10%
63. 2020 started with optimistic business surveys pointing to an upswing in growth after the ending of political uncertainty. However, the three monthly GDP statistics in January were disappointing, being stuck at 0.0% growth. Since then, the whole world has changed as a result of the coronavirus outbreak. It now looks likely that the closedown of whole sections of the economy will result in a fall in GDP of at least 15% in quarter two.
64. There is much uncertainty around; the extent of the damage that will be done to businesses by the end of the lock down period, when the end of the lock down will occur, whether there could be a second wave of the outbreak, how soon a vaccine will be created and then how quickly it can be administered to the population. This leaves huge uncertainties as to how quickly the economy will recover.
65. Brexit uncertainty caused the MPC to leave the Bank Rate at 0.75%. However, when the coronavirus outbreak posed a huge threat to the economy, two emergency cuts in Bank Rate from 0.75% occurred in March 2020, first to 0.25% and then to 0.10%.
66. The Bank Rate cuts were accompanied by an increase in quantitative easing (QE), essentially the purchases of gilts (mainly) by the Bank of England of £200 billion.
67. The Government and the Bank have been concerned about job losses during the lock down period. Accordingly, the Government introduced various schemes to subsidise both employed and self-employed jobs for three months while the country is locked down. It also put in place a raft of other measures to help businesses access loans from their banks, (with the Government providing guarantees to the banks against losses), to tide them over the lock down period when some firms may have little or no income. However, at the time of writing, this leaves open a question as to whether some firms will be solvent, even if they take out such loans, and some may also choose to close as there is, and will be, insufficient demand for their services.
68. This is a rapidly evolving situation so there may be further measures to come from the Bank and the Government. The measures to support jobs and businesses already taken by the Government will result in a huge increase in the annual budget deficit in 2020/2021 from 2% to nearly 11%. The ratio of debt to GDP is also likely to increase from 80% to around 105%. In the Budget in March, the Government also announced a large increase in spending on infrastructure; this will also help the economy to recover once the lock down is ended. Provided the coronavirus



outbreak is brought under control relatively swiftly, and the lock down is eased, then it is hoped that there would be a sharp recovery, but one that would take a prolonged time to fully recover previous lost momentum.

69. Inflation has posed little concern for the MPC during the last year, being mainly between 1.50% and 2.00%. It is also not going to be an issue for the near future as the world economy will be heading into a recession which is already causing a glut in the supply of oil which has fallen sharply in price. Other prices will also be under downward pressure while wage inflation has also been on a downward path over the last half year and is likely to continue that trend in the current environment. While inflation could even turn negative in the Eurozone, this is currently not likely in the UK.
70. Employment had been growing healthily through the last year but it is obviously heading for a big hit in March and April 2020. The good news over the last year is that wage inflation has been significantly higher than CPI inflation which means that consumer real spending power had been increasing and so will have provided support to GDP growth. However, while people cannot leave their homes to do non-food shopping, retail sales will also take a big hit.
71. In terms of the world economy, the trade war between the US and China on tariffs was a major concern to financial markets and was depressing worldwide growth during 2019, as any downturn in China would spill over into impacting countries supplying raw materials to China. Concerns were particularly focused on the synchronised general weakening of growth in the major economies of the world. These concerns resulted in government bond yields in the developed world falling significantly during 2019. In 2020, coronavirus is obviously the big issue sweeping around the world and having a major impact in causing a world recession in growth.

### **Other Issues – IFRS 9**

72. Risk management will need to take account of the 2018/2019 Accounting Code of Practice proposals for the valuation of investments. This will not be a significant issue for the Council, however key considerations are as follows,
  - Expected credit loss model. Whilst this should not be material for vanilla treasury investments such as bank deposits, this is likely to be problematic for some funds e.g. property funds, (and also for non-treasury management investments dealt with in the capital strategy e.g. longer dated service investments, loans to third parties or loans to subsidiaries).
  - The valuation of investments previously valued under the available for sale category e.g. equity related to the “commercialism” agenda, property funds, equity funds and similar, will be changed to Fair Value through the Profit and Loss (FVPL).

73. Following the consultation undertaken by the MHCLG on IFRS9, the Government has introduced a mandatory statutory override for local authorities to reverse out all unrealised fair value movements resulting from pooled investment funds. This will be effective from 1 April 2018. The statutory override applies for five years from this date. Local authorities are required to disclose the net impact of the unrealised fair value movements in a separate unusable reserve throughout the duration of the override in order for the Government to keep the override under review and to maintain a form of transparency.

### **Overview & Scrutiny Engagement**

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

### **Safeguarding Implications**

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

### **Public Health Implications**

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

### **Procurement Implications**

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

### **Equalities Impact of the Proposal**

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

### **Environmental and Climate Change Considerations**

79. 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.

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

### **Risks Assessment**

81. All investments have been at fixed rates during the period. The Council's current average interest rate on long term debt is 3.74%, which compares favourably with similar rates of other UK local authorities.

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

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

### **Financial Implications**

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

### **Workforce Implications**

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

### **Legal Implications**

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

### **Proposals**

87. Cabinet is requested to:

- a) Note that the contents of this report are in line with the Treasury Management Strategy 2019/2020.

**Andy Brown - Director, Finance and Procurement**

**Terence Herbert – Chief Executive, Wiltshire Council**

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28 May 2020

### **Appendices**

Appendix 1 Borrowing Portfolio  
Appendix 2 Investment Portfolio

## Borrowing Portfolio as at 31 March 2020

Lender	Start Date	Maturity Date	Amount £ million	Interest Rate %	Annual Interest £ million
<b>Public Works Loan Board (PWLB)</b>					
PWLB	28/03/2012	28/03/2021	4.000	2.21	0.088
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 £ million	Interest Rate %	Annual Interest £ million
<b>Public Works Loan Board (PWLB) – Continued</b>					
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
<b>TOTAL PWLB LOANS</b>			<b>274.123</b>		<b>10.002</b>

Lender	Start Date	Maturity Date	Amount £ million	Interest Rate %	Annual Interest £ million
<b><u>LOBO Loans</u></b>					
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
<b>TOTAL LOBO LOANS</b>			<b>61.000</b>		<b>2.667</b>
<b>TOTAL - ALL LOANS</b>			<b>335.123</b>		<b>12.669</b>

\* Annual interest = Total amount of annual interest payable per loan outstanding as at 31 March 2020. This won't equal the amount of interest paid during 2019/2020 – as the total loan portfolio has changed during the year.

## Appendix 2

### Investment Portfolio as at 31 March 2020 (compared to the counterparty list)

<b>Borrower</b>	<b>Amount £ million</b>	<b>Interest Rate %</b>	<b>Start Date</b>	<b>Maturity Date</b>	<b>LAS Credit Rating **</b>
Lloyds Bank	10.000	1.25	15/05/2019	15/05/2020	Orange - 12 months
First Abu Dhabi Bank PJSC	8.000	0.91	09/10/2019	07/10/2020	Orange - 12 months
Australia and New Zealand Banking Group Ltd	8.000	0.84	04/11/2019	05/05/2020	Orange - 12 months
Santander UK plc	8.000	0.87	08/11/2019	11/05/2020	Red - 6 months
Peterborough City Council	5.000	0.82	18/11/2019	15/04/2020	Yellow – 5 Years
Qatar National Bank	10.000	1.15	18/11/2019	18/05/2020	Red - 6 months
Handelsbanken plc (Call Account)	0.023	0.75	*	*	Orange - 12 months
Black Rock Money Market Fund	4.300	0.48	*	*	AAA
JP Morgan Money Market Fund	0.003	0.29	*	*	AAA
Federated Money Market Fund	11.433	0.42	*	*	AAA
Goldman Sachs Money Market Fund	0.000	0.28	*	*	AAA
Aberdeen Investments Liquidity Fund	14.760	0.47	*	*	AAA
<b>Total</b>	<b>79.519</b>				

\* 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.