Wiltshire Council

Council

21 February 2017

Treasury Management Strategy 2017/2018

Executive Summary

This report presents the Treasury Management Strategy for 2017/2018 including:

a) the Prudential and Treasury Indicators (PrIs and TrIs) for the next three years
b) other debt management decisions required for 2017/2018 that do not feature within the PrIs or TrIs, as shown in paragraphs 3.11 to 3.21; and
c) the Annual Investment Strategy for 2017/2018

This report has been prepared in accordance with CIPFA Code of Practice for Treasury Management in the Public Services 2011. There are no changes from the Treasury Management Strategy 2016/2017 adopted by the Council in February 2016. Cabinet considered the Treasury Management report and Strategy at its meeting on 7 February 2017 and has recommended its approval to this Council meeting.

Proposals

That Council:

a) adopt the Prudential and Treasury Indicators (Appendix A)
b) adopt the Annual Investment Strategy (Appendix B)
c) delegate to the Associate Director, Finance the authority to vary the amount of borrowing and other long term liabilities within both the Treasury Indicators for the Authorised Limit and the Operational Boundary;
d) authorise the Associate Director, Finance to agree the restructuring of existing long-term loans where savings are achievable or to enhance the long term portfolio;
e) agree that short term cash surpluses and deficits continue to be managed through temporary loans and deposits; and
f) agree that any surplus cash balances not required to cover borrowing are placed in authorised money-market funds, particularly where this is more cost effective than short term deposits and delegate to the Associate Director, Finance the authority to select such funds.

Reasons for Proposals

To enable the Council to agree a Treasury Management Strategy for 2017/2018 and set Prudential Indicators that comply with statutory guidance and reflect best practice.

Carolyn Godfrey
Corporate Director

Wiltshire Council

Council

21 February 2017

Treasury Management Strategy 2017/2018

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1. Purpose of Report

1.1 This report asks the Cabinet to consider and recommend that the Council approve the Prudential and Treasury Indicators, together with the Treasury Management Strategy for 2017/2018.

2. Background

2.1 The Council is required by legislation to approve an annual Treasury Management Strategy, which incorporates the setting of Prudential and Treasury Indicators and an Annual Investment Strategy.

3. Main Considerations for the Cabinet

Prudential Indicators (PrIs) and Treasury Indicators (TrIs)

Basis of the Indicators

3.1 A summary of the PrIs and TrIs is shown in Appendix A. The key indicators are the Treasury Indicators relating to the Authorised Limit (TrI 1) and the Operational Boundary (TrI 2), which control the Council's maximum exposure to debt.

3.2 The PrIs and TrIs have been set on the basis of all known commitments and the effect of all known revenue and capital proposals relating to the Council.

Monitoring and Reporting of the Prudential Indicators

3.3 Progress will be monitored against the PrIs and TrIs throughout the year, particularly against the two borrowing limits. Cabinet will be kept informed of any issues that arise, including potential or actual breaches. Members will receive quarterly capital monitoring reports and quarterly treasury reports.

3.4 The elements within the Authorised Limit and the Operational Boundary, for borrowing and other long term liabilities require the approval of the Council. In order to give operational flexibility, members are asked to delegate to the Associate Director, Finance the ability to effect movements between the two elements where this is considered necessary. Any such changes will be reported to members in the quarterly treasury report. The operational boundary is a key management tool for in-year monitoring. It will not be significant if the operational boundary is breached temporarily on occasions due to variations in cash flow. However, a sustained or regular trend above the operational boundary is considered significant and will lead to further investigation and action as appropriate. Any breach of the operational boundary will be reported to members at the earliest meeting following the breach. The authorised limit will in addition need to provide headroom over and above the operational boundary, sufficient for unusual cash movements, for example, and should not be breached.

Borrowing Strategy

Levels

3.5 The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded (please refer to Appendix A – paragraph 10) with loan debt as cash supporting the Council's reserves, balances and cash flow have been used as a temporary measure (internal borrowing). This strategy is prudent, as investment returns are low and by borrowing internally and, therefore, having less cash to invest, counterparty (the other party that participates in a financial transaction, such as an organisation/bank from whom the Council borrows money/with which the Council deposits cash surpluses) risk is reduced.

3.6 Against this background and the risks within the economic forecast, caution will be adopted with the 2017/2018 treasury operations. The Associate Director, Finance will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

a) if it was considered 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 will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

b) if it was considered that there was a significant risk of a much sharper rise in long and short term rates than that currently forecast, perhaps arising from a greater than expected increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates were still relatively cheap.

Any decisions will be reported to Cabinet at the earliest meeting following the decision.

Rate and Timing of Borrowing

3.7 Taking account of the cash required to support the capital programme over the next three to five years, the Council has an anticipated underlying requirement, subject to the approval of the capital programme at Council on 21 February 2017, to borrow an additional £83.8 million between now and the end of 2019/2020. This is reflected in PrI 4 in Appendix A (Gross Borrowing – General Fund), i.e. the increase in gross borrowing to £314.9 million in 2019/2020 from £231.1 million in 2015/2016 and includes the refinancing of maturing loans. In 2017/2018 (March 2018) one (PWLB) loan for £10 million matures and becomes repayable.

3.8 The timing of any borrowing is crucial in terms of interest rates and the potential to minimise interest costs. Prior to any actual borrowing the treasury team will, in conjunction with our treasury advisers, proactively manage the interest rate position, using all information available to inform the borrowing decision.

3.9 It is, of course, not always possible to obtain the lowest rates of interest, as there is a risk that unforeseen events can significantly alter the level of rates, however, ongoing active monitoring of rates will mitigate against this risk.

3.10 In supporting the capital programme, the Council will consider all borrowing options, such as:

a) internal borrowing, using medium term cash balances;

b) fixed rate Public Works Loan Board (PWLB) borrowing;

c) long term fixed rate market loans at rates, which, dependent upon market conditions and availability, can be significantly below PWLB rates for the equivalent maturity period;

The decision will be made whilst maintaining an appropriate balance between PWLB and market debt in the debt portfolio.

Other Debt Management Issues

Policy on Borrowing in Advance of Need

3.11 The Council will not borrow more than, or in advance of, its needs purely in order to profit from the investment of the extra sums borrowed because it is illegal. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the security of such funds is ensured.

Debt Rescheduling

3.12 As short term borrowing rates will be cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the debt repayment cost (i.e. premiums for early repayment).

3.13 The reasons for any rescheduling to take place will include:

a) the generation of cash savings and / or discounted cash flow savings;

b) helping to fulfil the treasury strategy;

c) enhancing the balance of the portfolio (the maturity profile and/or the balance of volatility).

3.14 Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt early as short term rates on investments are likely to be lower than rates paid on current debt.

3.15 All rescheduling will be reported to members in a treasury report at the earliest meeting following its action.

Lender Option Borrower Option (LOBO) Market Loans

3.16 Wiltshire Council currently has borrowings of £61 million in LOBO loans.

3.17 There are basically two main types of LOBO loan (of which the Council has both in its portfolio)

a) a loan with an 'initial period' at a relatively low rate of interest, on the completion of which, the rate will automatically increase to a 'secondary rate' under the terms of the loan agreement. The interest rate is then subject to 'call option dates' at certain predetermined stages (e.g. every six months, every five years) over the life of the loan, at which time the lender has the option to set a revised interest rate and the borrower has the option to repay the loan without penalty; or

b) a loan subject to 'call option dates' only (i.e. there is no 'secondary rate') at which time the lender has the option to raise the interest rate and the borrower has the option to repay the loan without penalty.

3.18 If the lender exercises his option to revise the interest rate at one of the 'call option dates', the Council's strategy is that it will always exercise its option to repay the loan. Consideration will then be given to refinancing the debt where the overall level of debt prior to the repayment needs to be maintained.

3.19 LOBO loans are treated in accordance with CIPFAs Treasury Management in Public Services Guidance Notes for Local Authorities 2011 Edition, relating to the determination of the maturity of borrowing that affects the date on which a LOBO loan should be treated as maturing. The Guidance states that "if the lender has the right to increase the interest rate payable without limit, such as in a LOBO loan, this should be treated as a right to require payment." For the purposes of the appropriate PrI, therefore, maturity occurs at the next call option date – i.e. the date on which the lender has the right to increase the interest rate payable without limit. However, in the current market of relatively low interest rates and very little significant upward movement in rates predicted in the near future, it is unlikely that the loans would be called in the short to medium term.

PWLB

3.20 As reported in last year's strategy, the Government have tabled an amendment to the National Infrastructure Bill, enabling the abolition of the board of the Public Works Loans Commissioners, transferring the functions to another person. Following a period of consultation, it has been announced that the Government has confirmed plans for the PWLB to be abolished and its functions for lending to local authorities transferred to the Treasury. Operational responsibility will be delegated to the Debt Management Office. The Treasury have stated that the reason for the move is to provide a more streamlined, up to date governance arrangement and ensure that ministers and accounting officers are properly accountable to Parliament, thus replacing the current lines of accountability which are outdated and not fit for purpose.

3.21 The government has made clear that the proposed abolition will not impact on the government's lending policy to local authorities. The next steps as outlined in the consultation response from Central Government in November 2016 is for the government to use its powers in the Public Bodies Act 2011 to lay before

Parliament a draft Order to implement these changes. No timescale has yet been published.

Short Term Cash Deficits

3.22 Temporary loans, where both the borrower and lender have the option to redeem the loan within twelve months, are used to offset short term revenue cash deficits. They may also be used to cover short term capital requirements until longer term loans become more cost effective. The majority of these loans will be at fixed interest rates, maturing on specific dates. The strategy is that the Council shall utilise temporary loans for any short term cash deficits that arise in respect of revenue and/or capital.

Cash Investments

Annual Investment Strategy

3.23 The Annual Investment Strategy for 2017/2018, which sets out the policy framework for the investment of cash balances, is shown in Appendix B.

Other Key Issues

3.24 Other key issues to note are:

a) the risk appetite of this Council is low in order to give priority to the security of its investments;

b) the borrowing of monies purely to invest or on-lend and make a return is unlawful;

c) all Council investments will be in sterling. This will avoid foreign exchange rate risk.

Short Term Cash Surpluses

3.25 It is anticipated that temporary short term (up to three months) cash surpluses will arise regularly during the year, due to timing differences between income streams and payments. Investment of these surpluses will be in specific investments (e.g. short term Sterling investments of less than one year). Such investments will normally be short term deposits maturing on specific dates that reflect cash flow requirements at the date the deposit is made. However, under certain market conditions, money market funds will be used, particularly if they provide improved returns.

Longer Term Cash Surpluses (over three months, up to one year)

3.26 Some cash surpluses, for example core revenue balances, net creditors, accrued reserves and special funds such as those for insurance and PFI can be invested on a long term basis. These cash surpluses may be used for capital financing requirements, where longer term interest rates mean that it is less cost effective to take out longer term loans.

3.27 Improved returns may be obtained by placing these surpluses in money market funds. The Associate Director, Finance has delegated authority to select money market funds and appoint External Cash Managers within the current approved strategy and it is proposed that this authority is retained.

3.28 The proposed Investment Strategy for 2017/2018 includes the use of unspecified investments (e.g. more than 12 months to maturity and for which external professional advice is required) that the Council's treasury adviser may recommend for investment of longer term cash surpluses.

3.29 Although the Council has been well positioned in terms of the balance between both loans and investments, rates of interest paid on deposits have been moving slightly lower over the last financial year. Following a further period of similarly low rates, the UK Bank Rate, according to Capita's latest forecast, is not expected to start increasing until quarter three of 2019.

Minimum Revenue Provision

3.30 The minimum revenue provision (MRP) is the amount set aside for the repayment of the debt as a result of borrowings made to finance capital expenditure.

3.31 In accordance with Local Authorities (Capital Finance and Accounting) Regulations 2008 the Council adopted a MRP annual policy in May 2009.

3.32 For financial year 2016/2017 the annual policy remained unchanged, in that a regulatory method of setting aside 4% of the borrowing requirement for supported borrowing and an asset life method calculation for any unsupported borrowing was applied.

3.33 It is proposed that this policy is retained in 2017/2018 but kept under review.

4. Overview and Scrutiny Engagement

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

5. Safeguarding Considerations

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

6. Public Health Implications

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

7. Procurement Implications

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

8. Equalities Impact of the proposal

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

9. Environment and Climate Change Considerations

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

10. Risks Assessment and Financial Implications

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

10.2 The strategies in Appendix A and Appendix B take account of the forecast movement in interest rates and allow sufficient flexibility to vary strategy if actual movements in interest rates are not in line with the forecast.

10.3 The Council's treasury adviser is currently predicting the following interest rate movements:

a) the Bank Rate was reduced to 0.25% in August 2016. It is expected to rise to 0.50% by the end of the second quarter of 2019. A further rise of 0.25% is anticipated in the fourth quarter of 2019, which means that Bank Rate will be 0.75% at the end of the forecast period (March 2020);

b) medium term (10 year) PWLB borrowing rates are expected to remain at around 2.30% during 2017, then rising gradually to 2.70% by the end of March 2020.

10.4 It should be noted that BREXIT negotiations and post US presidential election issues could impact the financial markets and whilst these are the central interest rate forecasts there could be some volatility during the next three financial years. The Authority will monitor the financial market/interest rate forecast updates and adjust the Treasury Strategy to mitigate the risks arising from any such volatility.

10.5 The risk that counterparties are unable to repay investments could jeopardise the Council's ability to meet its payments. Investment counterparty risk is controlled by using suitable criteria for assessing and monitoring credit risk, including the use of an up to date lending list. The lending list is based on counterparty categories relating to country, type, sector, maximum investment, and maximum duration of investment (see Appendix B). The Council uses the credit worthiness service provided by its treasury advisers, which is a comprehensive modelling approach incorporating the credit ratings of all three major credit rating agencies, together with 'overlays' of Credit Default Swap (CDS) spreads (default risk), credit watches, credit outlooks and sovereign ratings from the agencies (a more detailed explanation is included within the Annual Investment Strategy in Appendix B).

10.6 Interest earnings are an important source of revenue for the Council and it is, therefore, critical that the portfolio is managed in a way that maximises the investment income stream, whilst managing exposure to risk and maintaining sufficient liquidity.

11. Legal Implications

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

12. Options Considered

12.1 Future consideration will be given to alternative borrowing and investment options to improve the cost effectiveness of and return on treasury activities for the Council. This may incorporate consideration of alternative sources of capital financing, such as the issuing of bonds, rather than the more traditional borrowing approaches, together with longer term investments, where appropriate and subject to security and liquidity of investments. Currently, the issuing of bonds has not been taken forward because of both the costs of issuance, such as gaining and maintaining a suitable credit rating (local authorities, including Wiltshire Council are presently rated AAA) and the interest rates, which may not be competitive (with PWLB rates).

LGA – Municipal Bond Agency:

12.2 The Council may also consider making use of this new source of borrowing as and when (and if) appropriate. The Municipal Bond Agency is in the process of being set up and becoming fully operational and will offer loans to local authorities in the near future. It is also hoped that the borrowing rates will be lower than those offered by the Public Works Loan Board (PWLB).

12.3 The options in relation to the revenue and capital budgets in these proposals are fully consistent with the figures included within the budget considerations.

13. Conclusion

13.1 The Cabinet is requested to recommend that the Council approves and adopts the Treasury Strategy for 2017/2018.

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Background Papers

The following unpublished documents have been relied on in the preparation of this Report:

None.

Appendices

Appendix A	Prudential and Treasury Indicators for 2017/2018, 2018/2019 & 2019/2020
Appendix B	Annual Investment Strategy for 2017/2018

APPENDIX A

Prudential and Treasury Indicators for 2017/2018, 2018/2019 & 2019/2020

1. The Prudential and Treasury Management Codes and Treasury Guidelines require the Council to set a number of Prudential and Treasury Indicators for the financial year ahead. This appendix sets out the indicators required by the latest codes analysed between Prudential Indicators and Treasury Indicators.

Prudential Indicators

PrI 1 – Capital Expenditure

2. This PrI shows the actual and anticipated level of capital expenditure for the five years 2015/2016 to 2019/2020. The Capital Programme 2017/2018 will be submitted to Cabinet and Council in February 2017. The estimates for 2018/2019 and 2019/2020 are based on indicative figures as part of the Capital Programme, and are therefore subject to change.

	2015/2016 Actual £million	**2016/2017 Expected £million**	**2017/2018 Estimate £million**	**2018/2019 Estimate £million**	**2019/2020 Estimate £million**
General Fund	101.5	91.3	94.5	59.7	65.9
Housing Revenue Account	13.3	23.1	37.0	8.9	8.6
Total	**114.8**	**114.4**	**131.5**	**68.6**	**74.5**

3. The capital expenditure figures shown in PrI 1 assume a certain level of financing from borrowing each year. New and existing borrowing needs to be affordable and sustainable.

PrI 2 – Ratio of Financing Costs to Net Revenue Stream

4. PrI 2 identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream (funding receivable from the Government and council tax payers for the General Fund and rents receivable in the case of the HRA).

	2015/2016 Actual	**2016/2017 Expected**	**2017/2018 Estimate**	**2018/2019 Estimate**	**2019/2020 Estimate**
General Fund	**6.9%**	**7.3%**	**7.6%**	**7.9%**	**8.4%**
Housing Revenue Account	**14.7%**	**15.0%**	**15.2%**	**15.3%**	**15.1%**

5. The General Fund cost of financing will rise proportionately over the reporting period because of the effect on financing costs where 'new debt' is expected to rise faster than 'old debt' is repaid. Previously the rise in General Fund financing costs was not an affordability issue as the new borrowing taken out was supported by Revenue Support Grant. Only by the use of continued Unsupported Borrowing was there any pressure on the Council Tax. In terms of the movement in the HRA ratio of financing costs in 2016/2017, through 2017/2018, 2018/2019 and 2019/2020, this is a reflection of fixed borrowing costs over the period against expected rental income.

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

6. PrI 3 represents the potential increase in Council Tax/Housing Rents required to fund the planned increase in the capital budgets for the forthcoming year and future years as a proportion of the tax base at Band D/average weekly housing rents. Due to the change to the subsidy system there is no planned effect on average housing rents due to the additional borrowing required. For 2017/2018, as part of a continual review, these figures have been re-calculated in conjunction with our treasury management advisors.

	2017/2018 £	**2018/2019 £**	**2019/2020 £**
Effect on Band D Council Tax	4.56	5.79	10.84
Effect on Average Housing Rent per week	0.00	0.00	0.00

PrI 4 – Gross Borrowing and the Capital Financing Requirement

7. PrI 4 measures the so-called “Golden Rule” and focuses on prudence. Its purpose, as described in the Prudential Code, is: *“In order to ensure that over the medium term gross borrowing will only be for a capital purpose, the local authority should ensure that gross borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two years”.*

8. The Capital Financing Requirement (CFR) increases whenever capital expenditure is incurred. If resourced immediately (from capital receipts, direct revenue contributions or capital grant/contributions) the CFR will reduce at the same time that the capital expenditure is incurred, resulting in no net increase in CFR.

9. Where capital expenditure is not resourced immediately, there is a net increase in CFR, represented by an underlying need to borrow for capital purposes, whether or not external borrowing actually occurs. The CFR may then reduce over time through future applications of capital receipts, capital grants/contributions or further charges to revenue.

10. This PrI is necessary, because under an integrated treasury management strategy (in accordance with best practice under the CIPFA Code of Practice on Treasury Management in the Public Services), borrowing is not associated with particular items or types of expenditure, whether revenue or capital.

APPENDIX A

Prudential and Treasury Indicators for 2017/2018, 2018/2019 & 2019/2020

	2015/2016 Actual £million	**2016/2017 Expected £million**	**2017/2018 Estimate £million**	**2018/2019 Estimate £million**	**2019/2020 Estimate £million**
CFR – General Fund	393.7	399.3	401.3	401.9	416.0
CFR – HRA	122.6	122.6	122.6	122.6	122.6
Gross Borrowing – Gen Fund	231.1	219.0	258.2	274.3	314.9
Gross Borrowing – HRA	118.8	118.8	118.8	118.8	118.8
CFR not funded by gross borrowing – Gen Fund	**162.6**	**180.3**	**143.1**	**127.6**	**101.1**
CFR not funded by gross borrowing – HRA	**3.8**	**3.8**	**3.8**	**3.8**	**3.8**

11. General Fund gross borrowing is expected to increase as planned additional long term borrowing is taken out.

12. No problems are foreseen in meeting the "Golden Rule" over the period under review. The table above shows a relatively significant margin not funded by gross borrowing.

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

13. The Revised CIPFA Code of Practice for Treasury Management in the Public Services 2009 was adopted by Wiltshire Council at its meeting on 23 February 2010.

14. All recommendations within this report are consistent with the Revised CIPFA Code.

Treasury Management Indicators within the Prudential Code

TrI 1 – Authorised Limit for External Debt

15. The Authorised Limit is the Operational Boundary (see TrI 2 below), including an allowance for unplanned and irregular cash movements. This allowance is difficult to predict, Cabinet approved an amended allowance of 2.5% in the Treasury Management Strategy 2012/2013 at its meeting on 15 February 2012.

16. It is proposed that an allowance of 2.5% is continued for General Fund borrowing for 2017/2018 to 2019/2020 (e.g. for 2017/2018 this is reflected in the difference between the Authorised Limit of £434.9 million in the table below and the Operational Boundary of £424.3 million in the table following paragraph 21). This will be kept under review. The allowance provides for the possibility of additional borrowing during the year as a result of Government support for further schemes and provides headroom where the projection proves too optimistic (payments made earlier or receipt of income delayed against that forecast).

Prudential and Treasury Indicators for 2017/2018, 2018/2019 & 2019/2020

17. There is no allowance in respect of HRA borrowing as it is capped and, therefore, cannot be exceeded.

Authorised Limit	**2017/2018 £million**	**2018/2019 £million**	**2019/2020 £million**
Borrowing – General Fund	434.9	436.3	451.9
Borrowing – HRA	123.2	123.2	123.2
Other Long Term Liabilities	0.2	0.2	0.2
TOTAL	**558.3**	**559.7**	**575.3**

18. The Authorised Limit set by the Council is the statutory borrowing limit under Section 3(1) of the Local Government Act 2003, a breach would be serious and, therefore, there is the need to build in sufficient headroom.

TrI 2 – Operational Boundary for External Debt

19. The Operational Boundary and the Authorised Limit are central to the Prudential Code and reflect the limits that authorities place on the amount of their external borrowing.

20. The Operational Boundary is based on a prudent estimate of the most likely maximum level of external borrowing for both capital expenditure and cash flow purposes, which is consistent with other budget proposals. The basis of the calculation for General Fund borrowing 2017/2018 (£424.3 million) is:

- Expected Capital Financing Requirement at 31 March 2017 of £401.3 million
- Plus the expected long-term borrowing to finance capital expenditure (unsupported only £16.9million)
- Less the expected set-aside for debt repayment (£13.9 million)
- Plus the expected maximum level of short-term cash flow borrowing that is anticipated (£20.0 million).

21. The basis of the calculation for HRA borrowing 2017/2018 is the debt settlement of £123.2 million.

Operational Boundary	**2017/2018 £million**	**2018/2019 £million**	**2019/2020 £million**
Borrowing	424.3	425.6	440.9
Borrowing – HRA	123.2	123.2	123.2
Other Long Term Liabilities	0.2	0.2	0.2
TOTAL	**547.7**	**549.0**	**564.3**

22. The Operational Boundary for each year also includes a small provision for other long term liabilities.

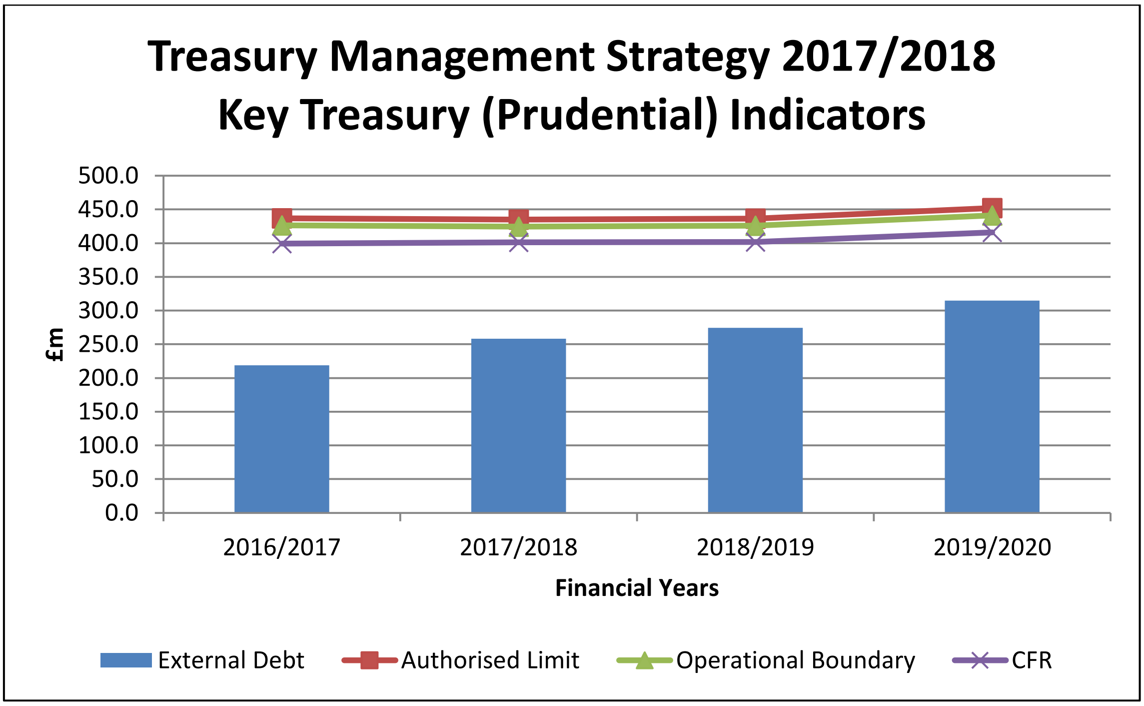
23. The Operational Boundary is a key management tool for monitoring the Authority's expected level of borrowing. It is essential to ensure that borrowing remains within the limits set and to take appropriate action where any likely breach is anticipated. Monitoring will take place through the year and will be reported to Cabinet.

TrI 3 – External Debt – Actuals at 31/03/2016 and Expected at 31/03/2017

24. This TrI shows the amount of gross external debt outstanding in periods prior to the budget years under consideration. Other long term liabilities relate to a provision for any borrowing required for finance leases on certain properties, plant, vehicles and equipment. It should be noted that as these figures are taken at a point in time, they are not comparable with the Authorised Limit and Operational Boundary, which are control limits.

	2016/2017 Actual £million	**2017/2018 Expected £million**
Borrowing – General Fund	255.7	221.2
Borrowing – HRA	118.8	118.8
Other Long Term Liabilities	0.2	0.2
TOTAL	**374.7**	**340.2**

The above TrIs 1-3, together with the Capital Financing Requirement, are represented in the graph below, which shows their relative 'positioning'. In order that the associated prudential/ treasury indicators are not breached, external debt should not exceed the CFR and the CFR should be below both the Operational Boundary and the Authorised Limit:



Treasury Management Indicators within the Treasury Management Code

TrI 4a and 4b – Upper Limit on Fixed Interest Rate Exposures and Variable Interest Rate Exposures, respectively

25. Future interest rates are difficult to predict. Anticipated rates are shown in the main report, under Risk Assessment. Indications are that best value will be achieved by taking long-term loans at fixed rates in 2017/2018. However, consideration of short term variable rate loans may prove to be advantageous, in 2017/2018 and in future financial years.

26. Interest rates will be monitored closely, in conjunction with the treasury adviser, to take advantage of any favourable changes in circumstances. The strategy should still be flexible, the upper limit for fixed interest rate and variable interest rate exposures are set out below.

The Council's upper limit for fixed interest rate exposure for the three year period 2017/2018 to 2019/2020 is 100% of net outstanding principal sums.

The Council's upper limit for variable interest rate exposure is 52% for 2017/2018, 54% for 2018/2019 and 56% for 2019/2020 of net outstanding principal sums.

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

27. The Council's policy needs to ensure that it is not forced to refinance too much of its long term debt in any year when interest rates are high. The current long-term General Fund debt, of £229.1 million, falls due for repayment over the next 60 years. LOBO (Lender Option Borrower Option) market loans are included at rates determined by reference to the earliest date on which the lender can require payment (i.e. at the next interest rate call date), as currently recommended by CIPFA.

28. In order to protect the Council from this risk and to safeguard the continuity in treasury management financing costs, the following limits have been adopted.

Limits on the Maturity Structure of Borrowing	**Upper**	**Lower Limit**
Maturing Period:		
- under 12 months*	25%	0%
- 12 months and within 24 months*	25%	0%
- 2 years and within 5 years	45%	0%
- 5 years and within 10 years	75%	0%
- 10 years and above	100%	0%

29. Most of the Council's debt matures within the period "10 years and above", albeit PWLB debt only. Depending on the maturity profile, the upper limits may require further amendment for future borrowing.

Prudential and Treasury Indicators for 2017/2018, 2018/2019 & 2019/2020

30. In addition to the main maturity indicators (above) it is considered prudent that, under normal circumstances, no more than 15% of long term loans, excluding LOBO loans, should fall due for repayment within any one financial year and 25% in the case of LOBO loans, where maturity is deemed to be the "next call option date" (see paragraph 3.18 in the main report).

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

31. This TrI is covered by the Annual Investment Strategy, which is detailed in the following appendix.

WILTSHIRE COUNCIL- ANNUAL INVESTMENT STRATEGY FOR 2017/2018

The Main Strategy

1. The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code").

2. The general investment policy of the Council is the prudent investment of any surplus cash balances, the priorities of which are (in order):

   a) the security of capital (first);
   b) the liquidity of investments (second); and (then)
   c) return (third).

3. The Council will aim to achieve the optimum return on investments commensurate with high levels of security and liquidity. The risk appetite of this Council is low in order to give priority to the security of its investments.

4. The borrowing of monies purely to invest or on-lend and make a return is unlawful and this Council will not engage in such activity.

5. All Council investments will be in sterling. This will avoid foreign exchange rate risk.

6. Investment of the Council's normal cash flow requirements will be in specified investments, as prescribed in "The Guidance". The categories of organisations with which investments will be placed and the minimum high credit quality required for each category are those set out in the minimum requirements for high credit quality below.

7. Investments in money market funds may be made if the fund has a high credit rating (AAA), as prescribed in the minimum requirements for high credit quality below.

8. For specified investments made under the recommendations of the Council's treasury adviser, the approved policy must be followed and is bound by the minimum requirements for high credit quality below.

9. In addition, using the professional judgement of the Council's treasury advisers, non specified investments may be made in UK Government Bonds (Gilts) and in multilateral development banks, such as the European Bank for Reconstruction and Development (EBRD), (as defined in Statutory Instrument 2004 No. 534) with a high credit rating, as prescribed in the minimum requirements for high credit quality below. (Multilateral development banks, or MDBs are supranational institutions set up by sovereign states, which reflect the development aid and cooperation policies established by these states. They have the common task of fostering economic and social progress in developing countries by financing projects, supporting investment and generating capital.)

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10. Such investments are the only non-specified investments authorised for use and will only be:

    a) in sterling
    b) in the case of UK Gilts, for a maximum of 50 years; and
    c) for investments maturing in excess of 12 months, limited to £30 million.

11. The Council will comply with the requirements of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, which were implemented on 1 January 2010, and will not pool pension fund cash with its own cash balances for investment purposes. Any investments made by the pension fund directly with this local authority will comply with the requirements of SI 2009 No 393. The Pension Fund Investment Strategy is approved by the Pension Fund Committee.

12. In accordance with guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the Council has below clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings, watches and outlooks published by all three ratings agencies with a full understanding of what these reflect in the eyes of each agency. Using the advisors ratings service potential counterparty ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.

13. Furthermore, the Council's officers recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings. This is fully integrated into the credit methodology provided by the advisors, Capita Asset Services, in producing its colour codings which show the varying degrees of suggested creditworthiness.

14. Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

15. The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoidance of concentration risk.

16. The intention of the strategy is to provide security of investment and minimisation of risk.

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Creditworthiness Policy

17. This Council uses Capita Asset Services, Treasury solutions as its external treasury management advisors. The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers. It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

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

    a) credit watches and credit outlooks from credit rating agencies;
    b) CDS spreads to give early warning of likely changes in credit ratings;
    c) sovereign ratings to select counterparties from only the most creditworthy countries.

19. 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.

20. 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.

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21. All credit ratings will be monitored at least weekly (daily if there are any updates released by Capita Asset Services). The Council is alerted to changes in ratings of all three agencies through its use of the creditworthiness service.

22. If a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.

23. In addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

24. Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, information on government support for banks and the credit ratings of that government support.

25. The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch Ratings.

The Minimum requirements for "high credit quality"

26. In accordance with the DCLG Guidance on Local Government Investments in respect of selection of counterparties with whom investments are placed, Wiltshire Council will comply with the minimum requirements below.

27. Credit ratings will be those issued by Fitch Ratings Ltd in respect of individual financial institutions (as shown below, where F1+ is the highest short term rating and AAA the highest long term rating). An exception is made in respect of money market funds, as shown below, where a different overall AAA rating is the highest.

28. The minimum requirements for high credit quality, by type of institution, are as follows:

- Banks incorporated inside the United Kingdom with a short term credit rating of at least F1 or Government backed and their subsidiaries;

- Banks incorporated outside the United Kingdom with a short term credit rating of at least F1+ and a long term rating of A+;

- United Kingdom building societies with a short term credit rating of at least F1 or Government backed;

- All local authorities and public bodies (as defined in S23 of the Local Authorities Act 2003) (ratings are not issued for most of these bodies);

- Multilateral development banks (as defined in Statutory Instrument 2004 No. 534) with a short term credit rating of at least F1 and long term credit rating of AAA;

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- All banks & building societies must have a bank viability rating of at least BBB – except where the counterparty is UK Government backed (fully and partially) – (AAA being the highest, through AA, A and BBB);

- Money market funds, which have been awarded the highest possible rating (AAA) from at least one of the following credit rating agencies, Standard and Poor's, Moody's Investor Services Ltd or Fitch Ratings Ltd.; and

- Deposits must only be placed in money market funds subject to individual signed management agreements.

29. In addition to the above criteria, the following limits will be applied to the total cumulative investments placed with an individual institution (or group of institutions where there is common ownership):

a) Up to £15 million:

- UK incorporated banks with a long term credit rating of at least AA;
- Overseas banks that have a long term credit rating of at least AA;
- Multilateral development banks;
- Local authorities and other public bodies; and
- Money market funds.

b) Up to £12 million:

- Government backed UK banks and UK building societies and their subsidiaries

c) Up to £8 million:

- Other UK incorporated banks (that have a long term credit rating of less than AA but which also satisfy the credit rating conditions within this Strategy);
- Other overseas banks (that have a long term credit rating of less than AA but which also satisfy the credit rating conditions within this Strategy);
- UK Building societies with long term credit rating of at least A; and
- Government backed overseas banks and their subsidiaries