Wiltshire Council

Council

25 February 2020

Subject:	**Treasury Management Strategy 2020/2021**
Cabinet member:	**Councillor Simon Jacobs – Cabinet Member for Finance and Procurement**
Key Decision:	**Non Key**

Executive Summary

This report presents the Treasury Management Strategy for 2020/2021 including:

a) Prudential and Treasury Indicators for the next three years

b) Debt management decisions required for 2020/2021 that do not feature within the Prudential or Treasury Indicators (paragraphs 72 to 76)

c) Minimum Revenue Provision Policy 2020/2021

d) Annual Investment Strategy for 2020/2021

This report has been prepared in accordance with CIPFA Code of Practice for Treasury Management in the Public Services 2011, as revised December 2017. Any relevant changes within the code of practice have been reflected within the Treasury Management Strategy 2020/2021. This report was endorsed by Cabinet on 4 February and the report to Cabinet is included below.

Proposals

That Council:

a) Adopt the Minimum Revenue Provision Policy (paragraph 32 – 34)

b) Adopt the Prudential and Treasury Indicators (paragraphs 24 – 31, 40 – 48 and Appendix A)

c) Adopt the Annual Investment Strategy (paragraph 77 onwards).

d) Delegate to the Director of Finance and Procurement the authority to vary the amount of borrowing and other long-term liabilities within the Treasury Indicators for the Authorised Limit and the Operational Boundary

e) Authorise the Director of Finance and Procurement to agree the restructuring of existing long-term loans where savings are achievable or to enhance the long-term portfolio

f) Agree that short term cash surpluses and deficits continue to be managed through temporary loans, deposits and money market funds

g) Agree that any surplus cash balances not required to cover borrowing are placed in the most appropriate specified or non-specified investments, particularly where this is more cost effective than short term deposits and delegate to the Director of Finance and Procurement the authority to select such funds

h) Adopt the Third Party Loans Policy (paragraph 93 and Appendix F)

Reasons for Proposals

To enable the Council to agree a Treasury Management Strategy for 2020/2021 and set Prudential Indicators that comply with statutory guidance and reflect best practice.

Alistair Cunningham
Chief Executive Officer – Place

Terence Herbert
Chief Executive Officer - People

Wiltshire Council

Cabinet

4 February 2020

Subject:	**Treasury Management Strategy 2020/2021**
Cabinet member:	**Councillor Simon Jacobs – Cabinet Member for Finance and Procurement**
Key Decision:	**Non Key**

PURPOSE OF REPORT

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 2020/2021.

Background

2. The Council is required to operate a balanced budget. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in appropriately risk assessed counterparties or instruments commensurate within the Council's risk appetite set out in the Strategy, providing adequate liquidity initially before considering investment return.

3. The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans, or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

4. The contribution that the treasury management function makes to the Council is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day to day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and

balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

5. Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day to day treasury management activities. Further details on non-financial investments are given in the Capital Strategy 2020/2021.

6. CIPFA defines treasury management as:

   "The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

Reporting Requirements - Capital Strategy

7. The CIPFA revised 2017 Prudential and Treasury Management Codes require for 2019/2020, all local authorities to prepare an additional report, the capital strategy, which will provide the following,

   - a high-level long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
   - an overview of how the associated risk is managed
   - the implications for future financial sustainability

8. The aim of the capital strategy is to ensure that all members fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

9. The capital strategy is reported separately from the Treasury Management Strategy Statement; non-treasury investments will be reported through the former. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercialism investments usually driven by expenditure on an asset.

10. The capital strategy will show,

   - The corporate governance arrangements for these types of activities;
   - Any service objectives relating to the investments;
   - The expected income, costs and resulting contribution;
   - The debt related to the activity and the associated interest costs;
   - The payback period (MRP policy);

- For non-loan type investments, the cost against the current market value;
- The risks associated with each activity.

11. Where a physical asset is being bought, details of market research, advisers used, (and their monitoring), ongoing costs and investment requirements and any credit information will be disclosed, including the ability to sell the asset and realise the investment cash.

12. Where the Council has borrowed to fund any non-treasury investment, there should also be an explanation of why borrowing was required and why the MHCLG Investment Guidance and CIPFA Prudential Code have not been adhered to.

13. If any non-treasury investment sustains a loss during the final accounts and audit process, the strategy and revenue implications will be reported through the same procedure as the capital strategy.

14. To demonstrate the proportionality between the treasury operations and the non-treasury operations, high level comparators are shown throughout this report.

Reporting Requirements – Treasury Management Reporting

15. Each year, the Council is required to receive and approve, as a minimum, three main reports, which incorporate a variety of policies, estimates and actuals.

    a) Treasury Management Strategy Statement including prudential and treasury indicators, which covers the following,
        - the capital plans (including prudential indicators);
        - a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
        - the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and
        - an investment strategy (the parameters on how investments are to be managed).

    b) Mid-year Treasury Management Report, which will update members with the progress of the capital position, amending prudential indicators as necessary, and whether any policies require revision.

    c) Annual Treasury Report, which is an outturn position document that provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy for the financial year.

Treasury Management Strategy 2020/2021

16. The strategy for 2020/2021 covers two main areas,

    Capital Issues
    - the capital expenditure plans and the associated prudential indicators;
    - the minimum revenue provision (MRP) policy.

    Treasury Management Issues
    - the current treasury position;
    - treasury indicators which limit the treasury risk and activities of the Council;
    - prospects for interest rates;
    - the borrowing strategy;
    - policy on borrowing in advance of need;
    - debt rescheduling;
    - the investment strategy;
    - creditworthiness policy; and
    - the policy on use of external service providers.

17. These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, MHCLG Guidance, the CIPFA Treasury Management Code and MHCLG Investment Guidance.

Training

18. The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. Training will be arranged as required.

19. The training needs of treasury management officers are periodically reviewed.

Treasury Management Consultants

20. The Council uses Link Asset Services - Treasury Solutions, as its external treasury management advisors.

21. 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. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

22. 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.

23. The scope of investments within the Councils operations now includes both conventional treasury investments (the placing of residual cash from the Council's functions), and more commercial type investments, such as investment properties. The commercial type investments may require specialist advisers, and the Council will appoint external advisors appropriate to the activity.

Capital Prudential Indicators (2020/2021 – 2022/2023)

24. The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

Capital Expenditure

25. This indicator shows the anticipated level of capital expenditure for the five years 2018/2019 to 2022/2023. The Capital Programme 2020/2021 will be submitted to Cabinet and Council in February 2020. The estimates for future years are based on indicative figures as part of the Capital Programme, and are therefore subject to change.

Capital Expenditure	2018/2019 Actual £million	2019/2020 Estimate £million	2020/2021 Estimate £million	2021/2022 Estimate £million	2022/2023 Estimate £million
General Fund	91.313	129.100	192.352	72.756	85.111
Housing Revenue Account (HRA)	14.980	14.858	40.482	30.371	11.534
Commercial Activities/Non-financial investments*	0.000	4.585	28.700	26.700	29.950
Total	**106.293**	**148.543**	**261.534**	**129.827**	**126.595**

* Commercial activities/non-financial investments relate to areas such as capital expenditure on investment properties, loans to third parties etc.

26. The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Financing of Capital Expenditure	2018/2019 Actual £million	2019/2020 Estimate £million	2020/2021 Estimate £million	2021/2022 Estimate £million	2022/2023 Estimate £million
Capital Receipts	11.602	8.779	8.612	2.180	0.000
Flexible Use of Capital Receipts	0.000	4.351	5.190	3.318	0.000
Capital Grants & Contributions	78.159	75.623	55.302	32.839	57.570
Capital Reserves	0.000	0.000	0.000	0.000	0.000
Revenue	0.000	0.000	0.000	0.000	0.000
HRA (excluding borrowing)	14.499	10.635	14.148	11.149	11.149
Total Financing (non-borrowing)	**104.260**	**99.388**	**83.252**	**49.486**	**68.719**
HRA Borrowing	0.00	0.000	14.694	14.841	0.385
Net Financing Need (Borrowing) – General Fund	2.033	49.155	162.588	65.500	57.491
Net Financing Need (Borrowing) – Total	**2.033**	**49.155**	**177.282**	**80.341**	**57.876**
Total Financing	**106.293**	**148.543**	**261.534**	**12.827**	**126.595**

The Council's Borrowing Need (the Capital Financing Requirement)

27. The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and so its underlying borrowing need. Any capital expenditure which has not immediately been paid for, through a revenue or capital resources, will increase the CFR.

28. The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with the asset life, and so charges the economic consumption of capital assets as they are used.

29. The CFR includes any other long-term liabilities (e.g. PFI schemes, finance leases). While these increase the CFR, and therefore the Council's borrowing requirement, these types of schemes include a borrowing facility by the lease PFI, PPP lease provider, and so the Council is not required to separately borrow for these schemes. The Council currently has £72.395 million of such schemes within the CFR.

30. The CFR projections are summarised in the table below,

	2018/2019 Actual £million	2019/2020 Estimate £million	2020/2021 Estimate £million	2021/2022 Estimate £million	2022/2023 Estimate £million
CFR – General Fund	402.122	436.906	581.433	622.590	655.556
CFR – HRA	119.864	111.865	126.558	141.399	141.783
Total CFR	**521.986**	**548.771**	**707.991**	**763.989**	**797.399**
Movement in CFR	**(17.342)**	**26.785**	**159.222**	**55.998**	**33.350**
Represented by					
Net Financing Need (General Fund)	2.033	49.155	162.588	65.500	57.491
Net Financing Need (HRA)	0.000	0.000	14.694	14.841	0.385
Total Net Financing Need	**2.033**	**49.155**	**177.282**	**80.341**	**57.876**
Less MRP/VRP	(10.988)	(10.789)	(14.479)	(18.762)	(20.945)
Less Other Long Term Liabilities (PFI)	(3.351)	(3.581)	(3.581)	(3.581)	(3.581)
Less Other Financing Movements	(5.036)	(8.000)	0.000	(2.000)	0.000
Movement in CFR	**(17.342)**	**26.785**	**159.222**	**55.998**	**33.350**

31. A key aspect of the regulatory and professional guidance is that elected members are aware of the size and scope of any commercial activity in relation to the Council's overall financial position. The capital expenditure figures shown in paragraph 25 above and these details demonstrate the scope of this activity and, by approving these figures, consideration is given to the scale, proportionate to the Council's remaining activity.

Minimum Revenue Provision (MRP) Policy Statement

32. 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.

33. The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the MRP), although it is also allowed to undertake additional voluntary revenue payments (VRP) if required.

34. MHCLG regulations have been issued which require full Council to approve an MRP statement in advance of each year. The following MRP policy (section a-d) was approved in October 2017 following a full review. It is recommended that Council approves the same MRP policy with the addition of section e for 2020/2021:

a. In respect of the Council's supported borrowing: MRP will be provided for in accordance with existing practice outlined in the former regulations but on a 2% straight-line basis, i.e. provision for the full repayment of debt over 50 years.

b. MRP for capital expenditure incurred wholly or partly by unsupported (prudential) borrowing or credit arrangements: equal Instalments to be determined by reference to the expected life of the asset. Asset life is deemed to begin once the asset becomes operational. MRP will commence from the financial year following the one in which the asset becomes operational.

c. MRP in respect of unsupported (prudential) borrowing: equal Instalments taken to meet expenditure, which is treated as capital expenditure by virtue of either a capitalisation direction or regulations, will be determined in accordance with the asset life method as recommended by the statutory guidance.

d. The Council retains the right to make additional voluntary payments to reduce debt if deemed prudent.

e. Where the Council issues capital loans to third parties (including to its own commercial companies), the expectation is that the funds lent will be re-paid in full at a future date. Therefore, no MRP will set aside in respect of these loans. MRP will however need to be applied as appropriate if it is determined at any point that any such loan will not be re-paid in full. The position of each loan will be reviewed on an annual basis by Chief Finance Officer.

Borrowing

35. The capital expenditure plans set out in paragraph 25 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Council's capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury/prudential indicators, the current and projected debt positions and the annual investment strategy.

Current Portfolio Position

36. The overall treasury management portfolio as at 31 March 2019 and for the position as at 30 November 2019 are shown below for both borrowing and investments.

Treasury Portfolio				
	Actual 31/03/2019 £million	**Actual 31/03/2019 %**	**Current 30/11/2019 £million**	**Current 30/11/2019 %**
Treasury Investments				
Banks	48.000	47.10	66.000	50.57
Local Authorities	39.000	38.27	10.000	7.66
Money Market Funds	14.907	14.63	54.502	41.76
Total Treasury Investments	**101.907**	**100.00**	**130.502**	**100.00**
Treasury Borrowing				
PWLB	282.123	82.22	282.123	82.22
LOBOs	61.000	17.78	61.000	17.78
Total External Borrowing	**343.123**	**100.00**	**343.123**	**100.00**
Net Treasury Investments/ (Borrowing)	**(241.206)**		**(212.621)**	

37. The Council's forward projections for borrowing are summarised in the tables below. These tables show the actual external gross debt, against the underlying capital borrowing need (the CFR), highlighting any over or under borrowing, for both the general fund and the HRA.

External Debt General Fund	2018/2019 Actual £million	2019/2020 Estimate £million	2020/2021 Estimate £million	2021/2022 Estimate £million	2022/2023 Estimate £million
Debt at 1 April	**209.123**	**229.123**	**278.278**	**440.866**	**504.366**
Expected Change in Debt	20.000	49.155	162.588	63.500	57.491
Debt at 31 March	**229.123**	**278.278**	**440.866**	**504.366**	**561.587**
CFR	402.122	436.906	581.433	622.590	655.556
PFI Liability	72.395	68.814	65.233	61.652	58.071
Under/ (Over) Borrowing	**100.604**	**89.814**	**75.334**	**56.572**	**35.898**

External Debt HRA	2018/2019 Actual £million	2019/2020 Estimate £million	2020/2021 Estimate £million	2021/2022 Estimate £million	2022/2023 Estimate £million
Debt at 1 April	**118.810**	**114.000**	**106.000**	**120.694**	**135.535**
Expected Change in Debt	(4.810)	(8.000)	14.694	14.841	0.385
Debt at 31 March	**114.000**	**106.000**	**120.694**	**135.535**	**135.920**
CFR	119.864	111.864	126.558	141.399	141.784
Under/ (Over) Borrowing	**5.864**	**5.864**	**5.864**	**5.864**	**5.864**

38. Within the range of prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2020/2021 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes.

39. The Director of Finance and Procurement confirms that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this report.

Treasury Indicators: Limits to Borrowing Activity

Operational Boundary

40. The operational boundary is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under borrowing by other cash resources.

41. 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.

42. The basis of the calculation for HRA borrowing 2020/2021 is the HRA CFR.

Operational Boundary	**2019/2020 £million**	**2020/2021 £million**	**2021/2022 £million**	**2022/2023 £million**
General Fund Debt	488.951	605.014	648.173	679.137
HRA Debt	123.122	126.558	141.399	141.784
Other Long-Term Liabilities	0.200	0.200	0.200	0.200
Total	**612.273**	**731.772**	**789.772**	**821.121**

Authorised Limit for External Debt

43. The authorised limit for debt is a key indicator which represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

44. The authorised limit is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

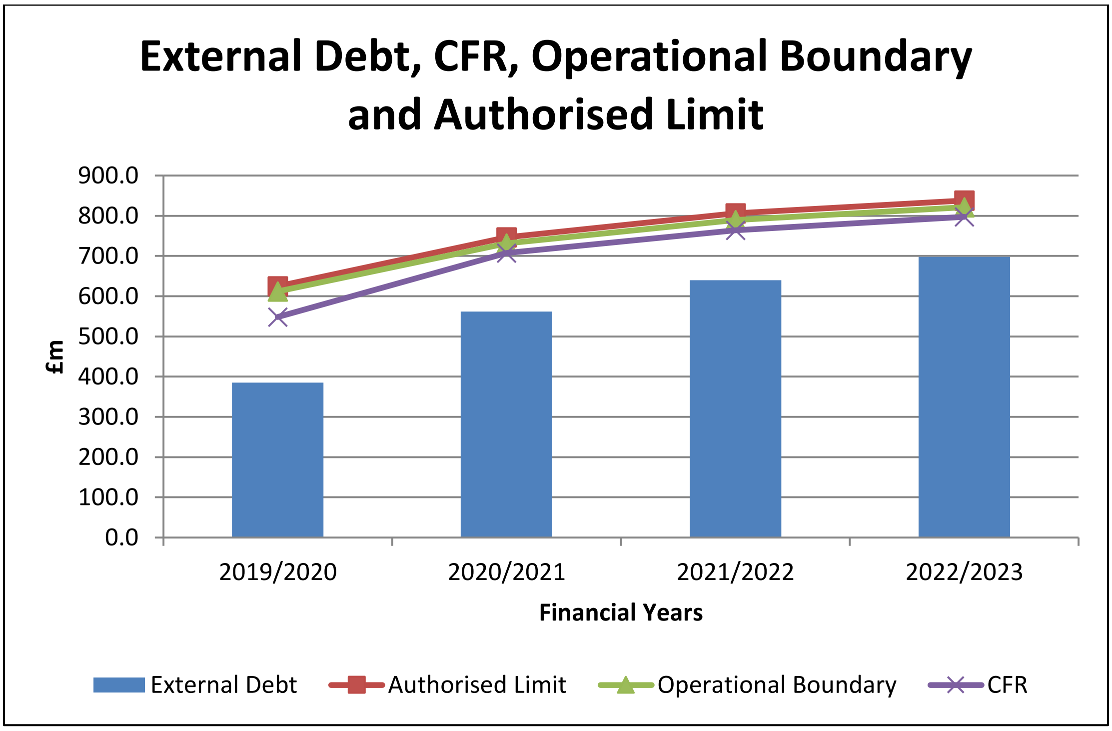
45. The authorised limit is the operational boundary, including an allowance for unplanned and irregular cash movements.

46. It is proposed that an allowance of 2.5% is continued for General Fund borrowing for 2020/2021 to 2022/2023, but 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).

47. There is no allowance in respect of HRA borrowing, so it has been decided that this borrowing should not exceed the CFR.

Authorised Limit	2019/2020 £million	2020/2021 £million	2021/2022 £million	2022/2023 £million
General Fund Debt	501.175	620.139	664.377	696.115
HRA Debt	123.122	126.558	141.399	141.784
Other Long-Term Liabilities	0.200	0.200	0.200	0.200
Total	**624.497**	**746.897**	**805.976**	**838.099**

48. The following bar/line graph shows external debt against the CFR, operation boundary and authorised limit.



Monitoring and Reporting of the Prudential Indicators

49. Progress will be monitored throughout the year, particularly against the two borrowing limits (operational boundary and authorised limit) above. Cabinet will be kept informed of any issues that arise, including potential or actual breaches.

50. 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 Director of Finance and Procurement, the ability to effect movements between the two elements where this is considered necessary. Any such changes will be reported to members.

51. 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.

52. 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

53. 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 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 counterparty risk is still an issue that needs to be considered.

54. Against this background and the risks within the economic forecast, caution will be adopted with the 2020/2021 treasury operations. The Director of Finance and Procurement will, through delegation and reporting, 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 an acceleration 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 will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than projected to be in the next few years.

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

Rate and Timing of Borrowing

56. In 2020/2021 one (HRA PWLB) loan of £4 million will mature and become repayable (March 2021). This loan may be refinanced in 2021 depending on the Council's overall internal borrowing position, and the nature of the current economic climate.

57. 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.

58. 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.

59. 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.

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

Sources of Borrowing/Types of Borrowing

61. Following the decision by the PWLB on 9 October 2019 to increase the margin over gilt yields by 100 basis points to 180 basis points on loans lent to local authorities, consideration will also be given to sourcing funding at cheaper rates from the following,

- Local Authorities (primarily shorter dated maturities)
- Financial Institutions (primarily insurance companies and pension funds but also some banks)
- Municipal Bond Agency (no issuance at present, but there is potential)

62. The degree which any of these options proves cheaper than PWLB certainty rate is still evolving at this current time, but our advisors will keep the Council informed.

Lender Option Borrower Option (LOBO) Market Loans

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

64. There are 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;

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.

65. 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.

66. 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.

Short Term Cash Deficits

67. 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.

Short Term Cash Surpluses

68. 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)

69. 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.

70. Improved returns may be obtained by placing these surpluses in money market funds. The Director of Finance and Procurement 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.

71. The proposed Investment Strategy for 2020/2021 continues to include 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.

Policy on Borrowing in Advance of Need

72. The Prudential Code issued by CIPFA requires that a council should not borrow more than, or in advance of need purely to profit from the investment of the extra sums borrowed. This Statutory Guidance requires that where borrowing in advance is enacted by a council that the rationale for the decision is clearly set out to ensure that external auditors, tax payers and interested parties are able to hold the council to account for the reasons for the borrowing. This will be included in the decision-making process.

Debt Rescheduling

73. 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).

74. 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).

75. 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.

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

Annual Investment Strategy

Investment Policy – Management of Risk

77. The MHCLG and CIPFA have extended the meaning of investments to include both financial and non-financial investments. This report deals solely with financial investments, (managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy (a separate report).

78. Council's investment policy has regard to the following,
    - MHCLG Guidance on Local Government Investments ("the Guidance")
    - CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the Code").
    - CIPFA Treasury Management Guidance Notes 2018.

79. The Council's investment priorities will be security first, portfolio liquidity second, then yield (return).

80. The above guidance from the MHCLG and CIPFA place a high priority on the management of risk. The Council has adopted a prudent approach to managing risk and defines its risk appetite by the following means,

    a) Minimum acceptable credit criteria are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.

    b) Other information ratings will not be the sole determinant of the quality of an institution; 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 achieve this consideration 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.

    c) 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.

d) The Council has defined the list of types of investment instruments that the treasury management team are authorised to use. There are two lists in Appendix B under the categories of ‘specified’ and ‘non-specified’ investments.

  a) Specified Investments are those with a high level of credit quality and subject to a maturity limit of one year.
  b) Non-specified investments are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use. Once an investment is classified as non-specified, it remains so until maturity. i.e. an 18 month deposit would still be non-specified even if it only has 11 months left to maturity.

e) Non-specified investments limit. The Council has determined that it will limit the maximum total exposure to non-specified investments to be £30 million, in line with the limits for investments for longer than 365 days.

f) Lending Limits, (amounts and maturity) for each counterparty will be set through applying the matrix table in paragraph 86 and 91.

g) The Council will set a limit for the amount of its investments which are invested for longer than 365 days (see paragraph 106)

h) Investments will only be placed with counterparties from countries with a specified minimum sovereign rating (see paragraph 97)

i) The Council has engaged external consultants (see paragraph 20) to provide expert advice on how to optimise an appropriate balance on security, liquidity and yield, given the risk appetite of the Council in the context of the expected level of cash balances and need for liquidity throughout the year.

j) All investments will be denominated in sterling.

k) As a result of the change in accounting standards from 2018/2019 under IFRS 9, the Council will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the MHCLG concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years commencing from 1 April 2018)

81. The Council will also pursue value for money in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance (see paragraph 102). Regular monitoring of investment performance will be carried out during the year.

82. Property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

83. The Council will consider an investment in the CCLA Property Fund (a fund tailored to Local Authorities), and investment limits have been set as per non-specified investments. This would provide additional diversification of the Council's investments and the potential for earning a higher investment yield on the core investment balance.

Changes in Risk Management Policy from 2019/2020

84. There have been no changes in the Risk Management Policy from last year.

Creditworthiness Policy

85. The Council applies the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach, utilising credit ratings from the three main credit rating agencies - Fitch, Moodys and Standard & Poors. The credit ratings of counterparties are supplemented with the following overlays:
    - Credit watches and credit outlooks from credit rating agencies;
    - CDS spreads to give early warning of likely changes in credit ratings;
    - Sovereign ratings to select counterparties from only the most creditworthy countries.

86. The above 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:

Colour	Maximum Investment
Yellow	5 years
Dark Pink	5 years (for ultra-short dated bond funds with a credit score of 1.25)
Light Pink	5 years (for ultra-short dated bond funds with a credit score of 1.5)
Purple	2 years
Blue	1 year (only applies to nationalised or semi nationalised UK banks)
Orange	1 year
Red	6 months
Green	100 days
No colour	not to be used

87. The Link Asset Services creditworthiness service uses a wider array of information other than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.

88. Typically, the minimum credit ratings criteria the Council use will be a Short Term rating (Fitch or equivalents) of F1 and a Long Term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances, consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

89. All credit ratings will be monitored daily. The Council is alerted to changes to ratings of all three agencies through its use of the Link Asset Services' creditworthiness service.

- 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.
- 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 daily basis via its Passport website, provided exclusively to it by Link Asset Services. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

90. Sole reliance will not be placed on the use of this external service. In addition, the Council will also use market data and market information, information on any external support for banks to help support its decision making process.

91. 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):

Monetary Limit	Counterparties
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
	Money market funds
Up to £12 million	Government backed UK banks and UK building societies and their subsidiaries
Up to £10 million	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);
	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
	Government backed overseas banks and their subsidiaries

Changes in Creditworthiness Policy from 2019/2020

92. The following criteria has been changed from last year,

    a. Due to operational requirements, monetary lending limits for HSBC were adjusted to distinguish between potential fixed term investments and operational balances held within the Council's bank account. The following limits were approved by Full Council on 26 November 2019.

    - £10.000 million with HSBC in respect of fixed term investments
    - £10.000 million with HSBC in respect of balances held on an overnight basis.

Third Party Loans

93. The Council has the power to lend monies to third parties. Appendix F sets out the Council's framework within which it may consider advancing loans to third party organisations.

UK Bank – Ring Fencing

94. The largest UK banks, (those with more than £25 billion of retail/Small and Medium Sized Enterprise (SME) deposits), as required, by UK law, to separate core retail banking services from their investment and international investment activities. This is known as 'ring-fencing'. While smaller banks with less than £25 billion in deposits are exempt, they can choose to opt up. Several banks are very close to the threshold already and so may come into scope in the future regardless.

95. Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking, to improve the resilience and resolvability of banks by changing their structure. In general, simpler, activities offered from within a ring-fenced bank, (RFB), will be focused on lower risk, day-to-day core transactions, whilst more complex and "riskier" activities are required to be housed in a separate entity, a non-ring-fenced bank, (NRFB). This is intended to ensure that an entity's core activities are not adversely affected by the acts or omissions of other members of its group.

96. While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The Council will continue to assess the new-formed entities in the same way that it does others and those with sufficiently high ratings, (and any other metrics), will be considered for investment purposes.

Other Limits

97. Due care will be taken to consider the exposure of the Council's total investment portfolio to non-specified investments, countries, groups and sectors.

    a. Non-specified investment limit. The Council has determined that it will limit the maximum total exposure to non-specified investments as being £30 million.

    b. Country limit. The Council has determined that it will only use approved counterparties from the UK and countries with a minimum sovereign credit rating of AA- from Fitch (or equivalent). The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix C. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

    c. Other limits. Limits in place above will apply to a group of counterparties.

Investment Strategy

98. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short term interest rates (i.e. rates for investments up to 12 months)

99. Greater returns are usually obtainable by investing for longer periods. While most cash balances are required to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the potential value from longer term investments will be carefully assessed.

- If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term
- Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

Investment Returns Expectations

100. On the assumption that the UK and EU agree a Brexit deal, including the terms of trade, by the end of 2020, then bank rate is forecast to increase slowly over the next few years to reach 1.00% by quarter 1 of 2023.

101. Bank rate forecasts for financial year ends are as follows,

Year	Bank Base Rate
2020/2021	0.75%
2021/2022	1.00%
2022/2023	1.00%

102. The suggested budgeted investment earnings rates for returns on investments places for periods up to about 3 months during each financial year are as follows:

Year	Budgeted Earnings Rate
2019/2020	0.75%
2020/2021	0.75%
2021/2022	1.00%
2022/2023	1.25%
2023/2024	1.50%
2024/2025	1.75%
Later Years	2.25%

103. The overall balance of risks to economic growth in the UK is probably to the downside due to the weight of all the uncertainties over Brexit, as well as a softening global economic picture.

104. The balance of risks to increases in Bank Rate and the shorter term PWLB rates are broadly similar to the downside.

105. In the event that a Brexit deal is agreed with the EU and approved by Parliament, the balance of risks to economic growth and to increases in Bank Rate is likely to change to the upside.

Investment Treasury Indicator and Limit

106. This investment treasury indicator limits the total funds invested for greater than 365 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for any unnecessary borrowing. They are based on the availability of funds after each year end.

107. The Council is asked to approve the treasury indicator and limit:

Upper Limit for Principal Sums Invested for longer than 365 days			
	2020/2021	**2021/2022**	**2022/2023**
Principal Sums Invested > 365 Days	£30m	£30m	£30m
Current Investments > 365 Days maturing in each year	£0m	£0m	£0m

108. For its cash flow generated balances, the Council will seek to utilise its HSBC overnight investment instant access account, money market funds and short dated deposits (overnight to 100 days) in order to benefit from the compounding of interest.

Investment Risk Benchmarking

109. The Council will use an investment benchmark to assess the investment performance of its investment portfolio of the relevant LIBID rate (dependant on the average duration of the fund).

End of Year Investment Report

110. At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

Overview and Scrutiny Engagement

111. The Financial Planning Task Group will consider this report on 23 January 2020, with any comments reported to the Cabinet meeting.

Safeguarding Implications

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

Public Health Implications

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

Procurement Implications

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

Equalities Impact of the Proposal

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

Environmental and Climate Change Considerations

116. 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.

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

Risks Assessment

118. 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.

119. The Prudential & Capital Indicators and the Annual Investment Strategy take account of the forecast movement in interest rates and allow sufficient flexibility to be varied if actual movements in interest rates are not in line with the forecast.

120. The Council's treasury adviser is currently reporting the following in terms of investment and borrowing rates,

    a) Investment returns are likely to remain low during 2020/2021 with little increase in the following two years. However, if major progress is made with an agreed Brexit, then there is upside potential for earnings.

    b) Borrowing interest rates were on a major falling trend during the first half of 2019/2020 but then jumped up by 100 basis points (bps) in October 2019. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the past few years. However, the unexpected increase of 100 bps in PWLB rates requires a major rethink of local authority treasury management strategy and risk management.

    c) Now that the gap between longer term borrowing rates and investment rates has materially widened, and in the long term Bank Rate is not expected to rise above 2.5%.

d) While the Council will not be able to avoid borrowing to finance new capital expenditure, to replace maturing debt and the rundown of reserves, there will be a cost of carry (the difference between higher borrowing costs and lower investment returns), to any new short or medium term borrowing that causes a temporary increase in cash balances, and this position will, most likely, incur a revenue cost.

Financial Implications

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

Workforce Implications

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

Legal Implications

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

Options Considered

124. 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.

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

Proposals

126. The Cabinet is requested to recommend that the Council approves and adopts the Treasury Management Strategy for 2020/2021, as follows,

a. Adopt the Minimum Revenue Provision Policy (paragraphs 32 – 34)

b. Adopt the Prudential and Treasury Indicators (paragraphs 24 – 31, 40 – 48 and Appendix A)

c. Adopt the Annual Investment Strategy (paragraph 77 onwards)

d. Delegate to the Director of Finance and Procurement the authority to vary the amount of borrowing and other long term liabilities within the Treasury Indicators for the Authorised Limit and the Operational Boundary

e. Authorise the Director of Finance and Procurement to agree the restructuring of existing long-term loans where savings are achievable or to enhance the long term portfolio

f. Agree that short term cash surpluses and deficits continue to be managed through temporary loans, deposits and money market funds

g. Agree that any surplus cash balances not required to cover borrowing are placed in the most appropriate specified or non-specified investments, particularly where this is more cost effective than short term deposits and delegate to the Director of Finance and Procurement the authority to select such funds.

h. Adopt the Third Party Loans Policy (paragraph 93 and Appendix F)

Deborah Hindson
Interim Director, Finance and Procurement

Alistair Cunningham	**Terence Herbert**
Chief Executive Officer – Place	**Chief Executive Officer – People**

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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 2020/2021, 2021/2022 & 2022/2023
Appendix B Specified and non-specified Investments
Appendix C Approved countries for investments
Appendix D Treasury Management Scheme of Delegation
Appendix E Role of the Section 151 Officer
Appendix F Third Party Loans Policy

Capital Prudential and Treasury Indicators for 2020/2021 – 2022/2023

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 code.

Affordability Prudential Indicators

2. The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators,

Ratio of Financing Costs to Net Revenue Stream

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

	2018/2019 Actual (%)	2019/2020 Estimate (%)	2020/2021 Estimate (%)	2021/2022 Estimate (%)	2022/2023 Estimate (%)
General Fund	5.9	5.8	6.8	8.8	9.8
HRA	14.4	14.1	13.4	15.9	18.6

4. The estimates in financing costs above include current commitments and the proposals in this budget report.

Maturity Structure of Borrowing

5. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

6. In order to protect the Council from interest rate risk and to safeguard the continuity of treasury management financing costs, the following limits have been adopted.

Maturity Structure of Fixed Interest Rate Borrowing 2020/2021		
	Lower (%)	Upper (%)
Under 12 months	0	25
12 months to 2 years	0	25
2 years to 5 years	0	45
5 years to 10 years	0	75
10 years and above	0	100

7. In addition to the 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”.

Appendix B

Treasury Management Practice (TMP) 1
Credit and Counterparty Risk Management

Specified Investments.

1. All such investments will be sterling denominated, with maturities up to a maximum of 1 year, meeting the minimum 'high' quality criteria.

Non-Specified Investments.

2. These are any investments which do not meet the specified investment criteria.

3. A maximum of £30 million will be held in aggregate non-specified investments.

Credit and Counterparty Risk

4. A variety of instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made, it will fall into one of the above categories.

5. The criteria applying to institutions or investment vehicles are as follows,

	Minimum credit criteria/ colour band	**Maximum maturity period**
Specified Investments		
DMADF – UK Government	N/A	6 months
UK Government Gilts	UK sovereign rating	12 months
UK Government Treasury Bills	UK sovereign rating	12 months
Bonds issued by multilateral development banks	AAA	6 months
Money Market Funds CNAV	AAA	Liquid
Money Market Funds LVNAV	AAA	Liquid
Money Market Funds VNAV	AAA	Liquid
Ultra Short Dated Bonds (1.25)	AAA	
Ultra Short Dated Bonds (1.5)	AAA	
Local Authorities	N/A	12 months
Term Deposits with Banks and Building Societies	Blue Orange Red Green No Colour	12 months 12 months 6 months 100 days Not for use
Certificates of Deposit or Corporate Bonds	Blue Orange Red Green	12 months 12 months 6 months 100 days

	No Colour	Not for use
Gilt Funds	UK sovereign rating	
Non-Specified Investments		
Term Deposits with Banks and Building Societies	Purple Yellow	2 years 5 years
UK Government Gilts	UK sovereign rating	50 years
Property Fund (CCLA)	N/A	N/A

6. The criteria in this appendix are intended to be the operational criteria in normal times. At times of heightened volatility, risk and concern in financial markets, this strategy may be amended by temporary operational criteria further limiting investments to counterparties of a higher creditworthiness and / or restricted time limits.

Accounting treatment of investments.

7. The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Council. To ensure that the Council is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

Monitoring of Investment Counterparties

8. The credit rating of counterparties will be monitored regularly. The Council receives credit rating information (changes, rating watches and rating outlooks) from Link Asset Services as and when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Director of Finance and Procurement, and if required new counterparties which meet the criteria will be added to the list.

Approved Countries for Investments

This list is based on those countries which have sovereign ratings of AA- or higher (the lowest rating from Fitch, Moody's and S&P is shown) and also, (except - at the time of writing - for Hong Kong, Norway and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Link Asset Services credit worthiness service.

Rating	Country
AAA	Australia
	Canada
	Denmark
	Germany
	Luxembourg
	Netherlands
	Norway
	Singapore
	Sweden
	Switzerland
AA+	Finland
	U.S.A.
AA	Abu Dhabi (UAE)
	France
	Hong Kong
	U.K.
AA-	Belgium
	Qatar

Appendix D

Treasury Management Scheme of Delegation

Full Council

1. Receiving and reviewing reports on treasury management policies, practices and activities;

2. Budget consideration and approval;

3. Approval of annual strategy.

Cabinet

1. Approval of/amendments to the organisation’s adopted clauses, treasury management policy statement and treasury management practices;

2. Budget consideration and proposal;

3. Approval of the division of responsibilities;

4. Receiving and reviewing regular monitoring reports and acting on recommendations;

Scrutiny – Finance Task Group

1. Reviewing the treasury management policy and procedures and making recommendations to the responsible body.

The Treasury Management Role of the Section 151 Officer

1. Recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;

2. Submitting regular treasury management policy reports;

3. Submitting budgets and budget variations;

4. Receiving and reviewing management information reports;

5. Reviewing the performance of the treasury management function;

6. Ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;

7. Ensuring the adequacy of internal audit, and liaising with external audit;

8. Approving the selection of external service providers and agreeing terms of the appointment.

9. Preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term timeframe (say 20+ years – to be determined in accordance with local priorities.)

10. Ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money

11. Ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the Council

12. Ensure that the Council has appropriate legal powers to undertake expenditure on non-financial assets and their financing

13. Ensuring the proportionality of all investments so that the Council does not undertake a level of investing which exposes the Council to an excessive level of risk compared to its financial resources

14. Ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities

15. Provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees

16. Ensuring that members are adequately informed and understand the risk exposures taken on by the Council

17. Ensuring that the Council has adequate expertise, either in house or externally provided, to carry out the above

18. Creation of Treasury Management Practices which specifically deal with how non-treasury investments will be carried out and managed.

Third Party Loans Policy

1. Government changes in the way councils are funded has prompted local authorities to look at more innovative ways of supporting business plan objectives.

2. The primary aims of any investment, in order of priority, are the security of its capital, liquidity of its capital and to obtain a return on its capital commensurate with levels of security and liquidity. These aims are crucial in determining whether to proceed with a potential loan.

3. Whilst the Council does not wish to become a commercial lender in the market place it can use its ability to borrow, at relatively economic rates, to support the delivery of improved outcomes for the residents of Wiltshire. At the same time this will facilitate the creation of a relatively modest income stream to support the Council's overall financial resilience. All third party loans must demonstrate alignment to the Council's core objectives and priorities.

4. The intention of this policy is therefore to establish a framework within which the Council may consider advancing loans to third party organisations.

Types of Loan

Loans Defined as Capital Expenditure

5. The acquisition of share capital or loan capital in any corporate body is defined as capital expenditure under Regulation 25(1) (d) of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003.

6. A loan, grant or financial assistance provided by this Council to another body will be treated as capital expenditure if the Council would define the other bodies use of those funds as capital had it undertaken the expenditure itself.

7. Loans of this nature will be included in the Council's approved capital programme.

8. The Council's Minimum Revenue Provision (MRP) Policy sets out the MRP requirements in respect of capital loans.

Other Loans

9. Other loans refers to loans that do not meet the definitions of capital expenditure but still support the delivery of the Council's core objectives and priorities. Examples of this type of loan include working capital loans to the Council's Local Authority Trading Companies (LATC's) and loans to Wiltshire Schools to enable Academy conversion.

Loan Framework

10. All loans, with the exception of loans to Wiltshire Schools to enable Academy conversion, must be secured against an asset or guaranteed by a public sector organisation with tax raising powers.

11. The maximum loan to value will not exceed 80%.

12. The maximum duration of the loan will be 25 years but the loan period must not exceed the useful life of the asset.

13. An independent valuation of the asset upon which the loan is secured will be undertaken by the Council.

14. A robust business case must be developed that demonstrates that the loan repayments are affordable.

15. The on-going value of the asset(s) that the loan has been secured against will be valued on a 5 year basis. A charge to revenue may be required if the equity value falls below the debt outstanding or if it becomes clear that the borrowing organisation is unable to service the debt.

16. Guarantees will be called upon if the lending organisation falls into arrears of more than 12 months.

17. Given the administrative costs incurred in both establishing and managing loans of this nature an administration/arrangement fee will be applied to each loan made. The arrangement fee will be no more than 1.0% of the value of the loan value.

18. All loan proposals (including any loan re-scheduling) must be agreed with the Director of Finance & Procurement in conjunction with the Council's Treasury Management team.

Limits

19. No specific maximum limits are proposed but all loans must be approved as set out above.

20. Loans less than £0.250 million will not be considered.

State Aid and Interest Rates

21. Under current EU law, State Aid rules must be taken into account whenever public money is given to an organisation that undertakes any commercial operation. State Aid is defined as an advantage in any form whatsoever conferred on a selective basis to undertakings by public authorities. Subsidies granted to individuals or general measures open to all enterprises are not covered by the State Aid prohibition.

22. The general parameters of the scheme will not permit loans to be made where the funding could be used in the delivery of commercial activities. However, not for profit organisations often undertake commercial activities in order to support the delivery of non-commercial activities. State aid can be avoided by using the Market Economy Operator (MEO) principles. If the state is acting in a way that a rational private investor would, for example in providing loans or capital on terms that would be acceptable to a genuine private investor who is motivated by return and not policy objectives, then it is not providing State Aid. This is because the beneficiary is not considered to be obtaining an advantage from the State but on the same terms that it could have obtained on the open market.

23. The actual interest rate charged on third party loans will be set with reference to the minimum permitted within State Aid rules at the time of fund advance and the Council's cost of borrowing plus an appropriate credit risk margin, whichever is higher.

24. If there is any doubt as to whether State Aid may be an issue, Legal advice must be sought.

Governance Arrangements

25. Loans Defined as Capital Expenditure require Cabinet approval in order to be added to the Capital Programme supported by a full business case.

26. The Director for Finance and Procurement has delegated authority for awarding loans to schools, in order to assist with their conversion process to become an academy. Specific delegation was awarded by Cabinet at their meeting of 17 May 2016, minute number 63.

27. All other loans must be approved by Cabinet supported by a full business case. Specific details in relation to drawdown of approved loan facilities must be specified as part of each business case.

28. Due-diligence checks will be undertaken to test the underlying assumptions set out in each business case. These checks will include but are not limited to independent credit checks and future cashflow forecasts.

Financial Risk

29. Where the Council issues capital loans to third parties (including to its own commercial companies), the expectation is that the funds lent will be re-paid in full at a future date.

30. However, the Council is required to consider the potential impairment of all loans that it issues to third parties on an annual basis to comply with International Financial Reporting Standards (IFRS 9). Where it is considered that there is a risk that any loan will not be re-paid, the Council will need to consider the level of any impairment, in full or in part) as appropriate. Impairments represent a real financial cost to the Council and are charged to the Council's General Fund revenue budget.

Exemptions

31. Exemptions to this policy may be considered but any exemption will need to be approved by Full Council.