

Wiltshire Council

Cabinet

12 July 2022

Subject: Treasury Management Outturn Report 2021/22

Cabinet member: Cllr Nick Botterill – Cabinet Member for Finance, Development Management and Strategic Planning

Key Decision: Non Key

Executive Summary

The Council adopted a Treasury Management Strategy and an Annual Investment Strategy for 2021/22 at its meeting on 2 February 2021.

The Treasury Management Strategy requires an Annual Outturn Report reviewing the Treasury Management activities for the year. This report covers the period from 1 April 2021 to 31 March 2022.

The Council has continued to finance capital expenditure through maximising the use of capital receipts, capital grants and internal borrowing. However, the Council has also drawn down £80m of borrowing from the PWLB this financial year, to take advantage of lower interest rates, before the forecast bank rate increases.

Overall, the Council is under borrowed by £120.275m. This has avoided the Council having to pay out external interest costs in the order of £3.235m. This under borrowed position is factored into the revenue budget. Against budget, there is an underspend in respect of the net position on interest receivable/payable (on both general fund and HRA) of £1.158m. This has been accounted for in the overall year end revenue outturn position for 2021/22.

The Council did not breach any of its performance indicators during 2021/22.

During the year the Council breached the counterparty duration limit for an investment held with Leeds Building Society. The duration limit is 100 days and the investment was made for 110 days (details can be found in paragraphs 63 to 66). This breach was reported as part of the Treasury Management Mid-Year Update Report 2021/22 and is reported here for completeness of the annual performance. Actions have been taken to mitigate the risk of reoccurrence of any such breach.

Proposals

Cabinet is requested to:

- a) Note that the contents of this report are in line with the Treasury Management Strategy 2021/22; and to
- b) Recommend to Full Council consideration of this report.

Reasons for Proposals

To give members an opportunity to consider the performance of the Council against the parameters set out in the approved Treasury Management Strategy for 2021/22.

Terence Herbert
Chief Executive

Wiltshire Council

Cabinet

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PURPOSE OF REPORT

1. The Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2021/22. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).
2. During 2021/22 the minimum reporting requirements were that the Council should receive the following reports,
 - an annual treasury strategy in advance of the year (reported to Cabinet on 2 February 2021)
 - a mid-year treasury update report (reported to Cabinet on 30 November 2021)
 - an annual review following the end of the year describing the activity compared to the strategy (this report)
3. The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.
4. This Council confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports before they were reported to Full Council.

5. This report summarises the following,

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

Overall Treasury Position

6. During 2021/22, the Council complied with its legislative and regulatory requirements. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

Prudential and Treasury Indicators	2020/21 Actual £m	2021/22 Original Budget/Estimate £m	2021/22 Actual £m
Capital Expenditure			
General Fund	97.121	182.774	95.012
HRA	10.114	31.577	16.120
Total	107.235	214.351	111.132
Capital Financing Requirement			
General Fund	473.779	574.240	493.470
HRA	107.865	108.267	99.864
Total	581.644	682.507	593.334
Gross Borrowing	336.157	456.926	408.557
External Debt	336.177	457.126	408.757
PFI Liability	68.957	62.568	64.502
Over/(under) borrowing	(176.530)	(163.013)	(120.275)
Investments			
Longer than one year	0.000	0.000	10.000
Under one year	142.452		209.529
Total	142.452		219.529
Net Borrowing	193.705		189.028

7. Other prudential and treasury indicators are to be found in the main body of the report.
8. The Corporate Director of Resources can confirm that borrowing was only undertaken for a capital purpose and the statutory borrowing limit (the authorised limit) was not breached.
9. The financial year 2021/22 continued the challenging investment environment of previous years, namely low investment returns as a result of the economic downturn.

The Council's Capital Expenditure and Financing

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

General Fund	2020/21 Actual £m	2021/22 Budget £m	2021/22 Actual £m
Capital expenditure	97.121	182.774	95.012
Financed in year	62.767	61.371	55.594
Unfinanced Capital Expenditure	44.468	121.403	39.418

HRA	2020/21 Actual £m	2021/22 Budget £m	2021/22 Actual £m
Capital expenditure	10.114	31.577	16.120
Financed in year	10.114	31.577	16.120
Unfinanced Capital Expenditure	0.000	0.000	0.000

The Council's Overall Borrowing Need

12. The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and resources used to pay for the capital spend. It represents the 2021/22 unfinanced capital expenditure (see

above table) and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

13. Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital programme, the treasury team organises the Council's cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Government through the Public Works Loans Board, or the money markets), or utilising temporary cash resources within the Council.

The Capital Financing Requirement (CFR)

14. The Council's (non HRA) underlying borrowing need (CFR) is not allowed to rise indefinitely. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision (MRP), to reduce the CFR. This is effectively a repayment of the non-Housing Revenue Account (HRA) borrowing need. There is no statutory requirement to reduce the HRA CFR. This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.
15. The total CFR can also be reduced by,
 - The application of additional capital financing resources, such as unapplied capital receipts; or,
 - Charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP)
16. The Council's 2021/22 MRP Policy (as required by the DLUHC Guidance) was approved as part of the Treasury Management Strategy Statement on 2 February 2021.
17. The Council's CFR for the year is shown below and represents a key prudential indicator. It includes PFI and leasing schemes on the balance sheet, which increase the Council's borrowing need. No borrowing is actually required against these schemes as a borrowing facility is included within the contracts.

	2020/21 Actual £m	2021/22 Estimate £m	2021/22 Actual £m
Opening CFR			
CFR – General Fund	446.484	474.816	473.779
CFR – HRA	111.865	108.024	107.865
CFR – Total	558.349	582.840	581.644
Unfinanced Capital Expenditure (General Fund) as paragraph 10	44.468	121.403	39.418
Unfinanced Capital Expenditure (HRA) as paragraph 10	0.000	0.000	0.000
Less MRP/VRP	(12.955)	(16.864)	(15.273)
Less Other Long Term Liabilities (PFI)	(4.218)	(3.112)	(4.455)
Less Other Financing Movements	(4.000)	(1.760)	(8.000)
Closing CFR			
CFR – General Fund	473.779	574.240	493.470
CFR – HRA	107.865	108.267	99.864
CFR - Total	581.644	682.507	593.334

Note the MRP/VRP will include PFI/finance lease annual principal payments.

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

Gross Borrowing and the CFR

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

	2020/21 Actual £m	2021/22 Budget £m	2021/22 Actual £m
Gross borrowing position	336.157	456.926	408.557
CFR	581.644	682.507	593.334
(Under)/over funding of CFR	(245.487)	(225.581)	(184.777)
PFI Liability	68.957	62.568	64.502
(Under)/Over Borrowing	(176.530)	(163.013)	(120.275)

22. To illustrate the benefit of having an under borrowed position: if the Council was to externally borrow £120.275m (over 25 years at current PWLB rate of 2.69%), this would result in external annual interest costs in the order of £3.235m. The interest foregone on the use of internal funds would be £0.192m (based on current average interest rate of 0.16% as at 31/03/2022). This produces a net benefit of £3.043m.

Authorised Limit

23. The authorised limit is the affordable borrowing limit required by section 3 of the Local Government Act 2003. The limit is set based on the Operational Boundary allowing for unplanned and exceptional cash movements up to 2.5% above the Operational Boundary. Once this has been set, the Council does not have the power to borrow above this level. The table below demonstrates that during 2021/22 the Council has maintained gross borrowing within its authorised limit.

Operational Boundary

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

	2021/22 £m
Authorised Limit	720.753
Maximum Gross Borrowing Position during the year	416.557
Operational Boundary	705.819
Average Gross Borrowing Position	346.747

Actual Financing Costs as a Proportion of Net Revenue Stream

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

	2021/22 %
Financing Costs as a Proportion of Net Revenue Stream – GF	5.80
Financing Costs as a Proportion of Net Revenue Stream – HRA	12.75

Treasury Position as at 31 March 2022

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

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

	31 March 2021			31 March 2022		
	Principal £m	Rate/ Return %	Average Life Years	Principal £m	Rate/ Return %	Average Life Years
Fixed Rate Funding						
PWLB	270.123	3.65	18.62	307.123	3.60	18.57
Market	61.000	4.37	37.57	61.000	4.37	36.57
Salix Funding	5.034	0.00	4.47	7.434	0.00	4.06
Variable Rate Funding						
PWLB	0.000	0.00	0.00	0.00	0.00	0.00
Market	0.000	0.00	0.00	0.00	0.00	0.00
Total Debt	336.157	3.78	20.00	408.557	3.67	19.66
Total Investments	142.452	0.23	0.22	219.529	0.16	0.23
Net Debt	193.705			189.028		

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

	31 March 2021 Actual £m	31 March 2022 Actual £m
Under 12 months	44.000	38.000
12 months and within 2 years	8.000	14.000
2 years and within 5 years	41.157	40.540
5 years and within 10 years	49.000	87.017
10 years and within 20 years	68.500	68.500
20 years and within 30 years	47.500	43.500

30 years and within 40 years	42.000	41.000
40 years and within 50 years	36.000	76.000
	336.157	408.557

	2021/22 Authorised Limits %		31 March 2022 Actual %	
	Upper Limit	Lower Limit	Next Call Date *	Contractual Maturity
Under 12 months	25.00	0.00	9.30	1.96
12 months and within 2 years	25.00	0.00	3.43	2.45
2 years and within 5 years	45.00	0.00	9.92	8.45
5 years and within 10 years	75.00	0.00	21.30	21.30
10 years and above	100.00	0.00	56.05	65.84

* the next call date is the date on which the lender has the right to redeem the loan. This affects five out of eight of our current market loans. In the current interest rate environment, a call is unlikely to happen as the rates payable on these loans are higher than the current prevailing market rates.

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

	Actual 31 March 2021 £m	Actual 31 March 2021 %	Actual 31 March 2022 £m	Actual 31 March 2022 %
Treasury Investments				
Banks	60.000	42.12	114.700	52.24
Building Societies	0.000	0.00	10.000	4.56
Local Authorities	25.500	17.90	0.000	0.00
MMFs	41.977	10.51	69.840	31.81
Call Account	14.975	29.47	14.989	6.83
Local Authority Property Fund	0.000	0.00	10.000	4.56
Total Treasury Investments	142.452	100.00	219.529	100.00
Non-Treasury Investments				
Third Party Loans	10.944	77.60	10.303	47.83
Stone Circle Loan	3.160	22.40	11.240	52.17
Total Non-Treasury Investments	14.104	100.00	21.543	100.00
Treasury Investments	142.452	90.99	219.529	90.69
Non-Treasury Investments	14.104	9.01	22.543	9.31
Total - All Investments	156.556	100.00	242.072	100.00

30. The maturity structure of the investment portfolio was as follows,

Treasury Investments	Actual 31 March 2021 £m	Actual 31 March 2021 %	Actual 31 March 2022 £m	Actual 31 March 2022 %
Longer than 1 Year	0.000	0.00	10.000	4.56
Up to 1 Year	142.452	100.00	209.529	95.44
Total	142.452	100.00	219.529	100.00

Treasury Management Strategy 2021/22

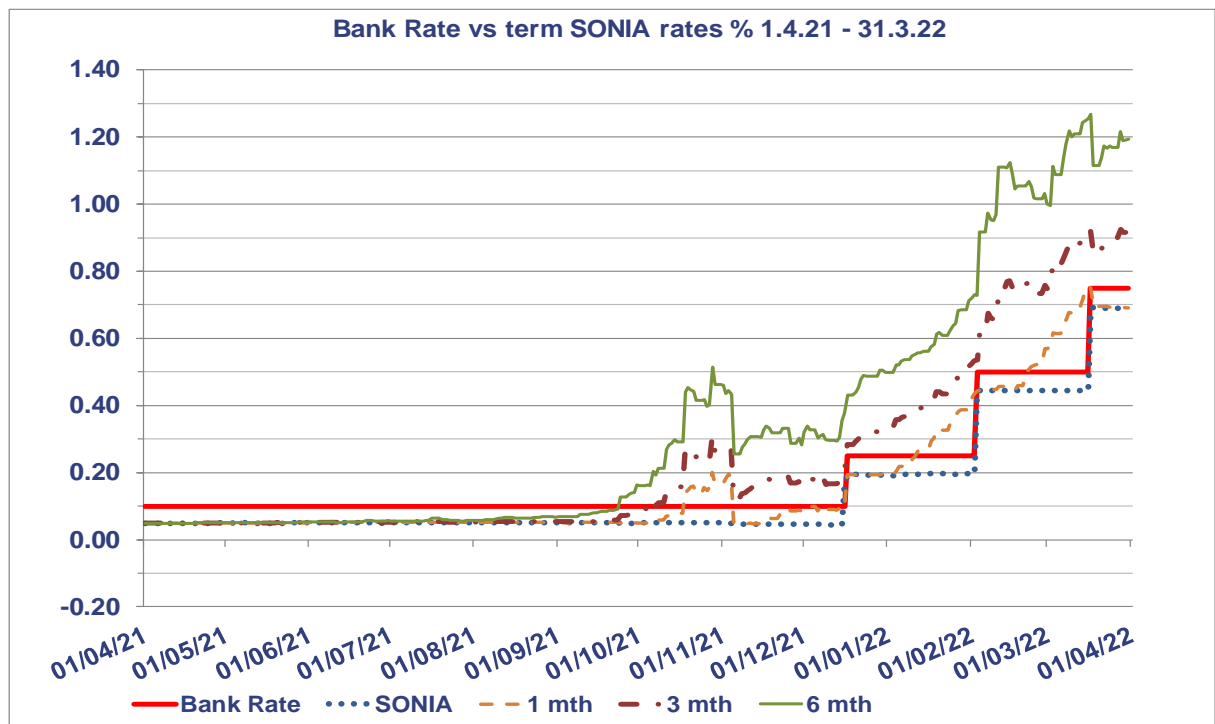
Investment Strategy and Control of Interest Rate Risk

31. The Council's 2021/22 Treasury Management Strategy set out that the investment benchmark used to assess the performance of its investment portfolio would be the LIBID rate (London Interbank Bid rate). The LIBID rate was linked to the London Inter-bank Offered Rate (LIBOR) which was only available until the end of December 2021, when all LIBOR setting ceased, and the rates were no longer available.

32. In sterling markets, the Sterling Overnight Indexed Average (SONIA) is the recommended replacement. SONIA is administered by the Bank of England, who take responsibility for its calculation and publication. It is based on actual transactions and reflects the average of the interest rates that banks pay to borrow overnight sterling from other financial institutions and other institutional investors.

33. The Bank of England Bank Rate and SONIA rates for 2021/22 were as follows

	Bank Rate	SONIA	1 Month	3 Month	6 Month
High	0.75%	0.69	0.75%	0.93%	1.27%
High Date	17/03/22	18/03/22	16/03/22	28/03/22	17/03/22
Low	0.10%	0.05%	0.05%	0.05%	0.05%
Low Date	01/04/21	15/12/221	10/11/21	14/04/21	09/04/21
Average	0.19%	0.14%	0.17%	0.24%	0.34%
Spread	0.65%	0.65%	0.71%	0.88%	1.22%



34. Investment returns remained close to zero for much of 2021/22. The Council managed to avoid negative interest rates, in part by taking advantage of the growth of inter local authority lending.
35. The expectation for interest rates within the treasury management strategy for 2021/22 was that Bank Rate would remain at 0.10% until it was clear to the Bank of England that the emergency level of rates introduced at the start of the Covid-19 pandemic were no longer necessary.
36. The Government supplied large amounts of finance to local authorities to pass on to businesses. This meant that for most of the year there was much more liquidity in financial markets than there was demand to borrow, with the consequent effect that investment earnings rates remained low until this calendar year, when inflation concerns indicated the Bank of England would need lift interest rates to combat the effects of growing levels of inflation.
37. While the Council has taken a cautious approach to investing, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the financial crisis. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions.
38. Previously, investment balances have been kept to a minimum through the agreed strategy of using reserves and balances to support internal borrowing, rather than borrowing externally from the financial markets. However, as additional borrowing

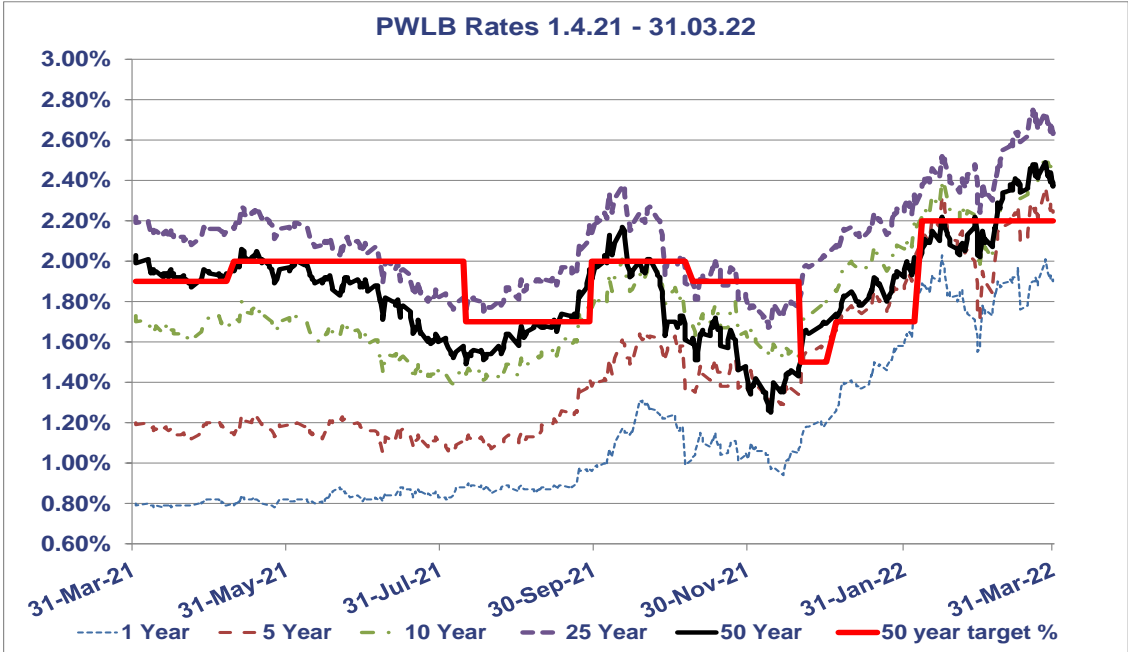
was taken towards the end of this financial year, there have been higher balances for investment, than in the previous financial year.

Borrowing Strategy and Control of Interest Rate Risk

39. During 2021/22, the Council maintained an under-borrowed position. This meant that the capital borrowing need (the CFR) was not fully funded with loan debt, as cash supporting the Council's reserves, balances and cash flow was used as an interim measure. The strategy was prudent as investment returns were very low and minimising counterparty risk on placing investments also needed to be considered.
40. The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this has remained under constant review to avoid incurring higher borrowing costs in the future when the Council may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt. The policy has allowed the Council to enter into long term borrowing arrangements, in order to secure lower rates of fixed debt to fund the Councils capital programme.
41. Against this background and the risks within the economic forecast, caution was adopted within the treasury operations. The treasury team monitored interest rates in financial markets and adopted a pragmatic strategy based upon the following principles to manage interest rate risks.
- If it had been felt that there was a significant risk of a sharp fall in long and short term rates, (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings would have been postponed, and potential rescheduling from fixed rate funding into short term borrowing would have been considered.
 - However, it was anticipated that there was a significant risk of a rise in long and short term rates than initially expected, so the portfolio position was re-appraised. Fixed rate funding was drawn from the PWLB whilst interest rates were lower than they were projected to be in the next few years.
 - Borrowing of £80m was undertaken for the capital programme to support the planned activity with Stone Circle Housing and Development companies over the next eight years. Details of the new borrowing are shown in paragraph 49.
42. Interest rate forecasts expected only gradual rises in medium and longer term fixed borrowing rates during 2021/22 and the two subsequent financial years, until the beginning of 2022, when inflation concerns increased significantly.

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

PWLB Rates	1 Year	5 Year	10 Year	25 Year	50 Year
01/04/2021	0.80%	1.20%	1.73%	2.22%	2.03%
31/03/2022	1.91%	2.25%	2.43%	2.64%	2.39%
Low	0.78%	1.05%	1.39%	1.67%	1.25%
Low Date	08/04/2021	08/07/2021	05/08/2021	08/12/2021	09/12/2021
High	2.03%	2.37%	2.52%	2.75%	2.49%
High Date	15/02/2022	28/03/2022	28/03/2022	23/03/2022	28/03/2022
Average	1.13%	1.45%	1.78%	2.10%	1.85%
Spread	1.25%	1.32%	1.13%	1.08%	1.24%



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

45. Gilt yields fell sharply from Spring 2021 to September, and then spiked back up before falling again in December. However, by January, sentiment had changed, as markets became focussed on the embedded nature of inflation, spurred on by a broader opening of economies post the pandemic, and rising commodity and food prices.

46. There is likely to be a further rise in short dated gilt yields and PWLB rates over the next three years as Bank Rate is forecast to rise to 1.25% later this year.

47. Current margins over gilt yields are as follows,

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

Borrowing Outturn

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

49. New general fund borrowing was undertaken during the year, to fund net unfinanced capital expenditure (to cover the planned activity with Stone Circle Housing and Development companies).

Pool	Lender	Principal £m	Type	Interest Rate %	Loan Term
General Fund	PWLB	20.000	Fixed Interest Rate Maturity	1.95	6 years
General Fund	PWLB	20.000	Fixed Interest Rate Maturity	1.98	7 years
General Fund	PWLB	20.000	Fixed Interest Rate Maturity	2.00	49 years
General Fund	PWLB	20.000	Fixed Interest Rate Maturity	2.00	50 years

50. Two naturally maturing loans were repaid during 2021/22 as follows,

Pool	Lender	Principal £m	Type	Interest Rate %	Loan Term
General Fund	PWLB	2.000	Fixed Interest Rate Maturity	4.33	11 years
HRA	PWLB	8.000	Fixed Interest Rate Maturity	2.4	10 years

Borrowing in Advance of Need

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

Debt Rescheduling

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

Investment Outturn

53. The Council's investment policy is governed by DULHC investment guidance, which has been implemented in the annual investment strategy approved by the Council on 2 February 2021. This policy sets out the approach for choosing investment counterparties and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data.
54. The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.
55. The Council maintained an average balance of £197.779m of internally managed funds. The difference between the balances available for investment and the actual investments is due to the varying level of working capital (creditors, debtors and other long term liabilities) and internal borrowing.
56. In March 2022, the Council purchased £10m of units in the CCLA property fund. The fund is designed for local authorities seeking exposure to UK commercial property for longer term investments. The aim of this investment is to provide a higher level of investment income, together with long term capital appreciation.
57. There is a cost to enter the CCLA fund (of 6.32%), meaning that on entry the fund is valued at £0.632m less than the purchase price. This difference between the purchase price and the valuation, does not represent a cost to the Council, as it is not charged to the Council's revenue account, but held in a separate unusable reserve. This is due to an accounting directive (IFRS9) which over-rides general accounting practice, which otherwise would see the entry cost charged to revenue in the year in which it was incurred. IFRS9 is explained in further detail in paragraph 71.
58. The internally managed funds earned an average rate of 0.16%. The comparable performance indicator is the 90 day backward looking SONIA rate, which was 0.0875%.
59. The Council's total interest received from all investments for 2021/22 was £0.777m. The Council's budgeted investment return for 2021/22 was £0.200m, therefore forecast investment income (interest) for the year to date is £0.577 over achieved against budget. The interest received was higher than budgeted due to interest from

traded companies and Wiltshire College loans, and higher than forecast interest on the money market funds which has been increasing since January 2022. In addition to this, the Council had larger than anticipated cash balances on which interest was accrued in the last two months of the year, due to the £80m debt drawn down from the PWLB.

60. The position on interest income must be compared with external interest costs payable. The Council paid external interest costs (on both the general fund and the HRA debt) of £12.769m against a budget of £13.350m. This is a £0.581m underspend against budget. The underspend is due to a lower than anticipated level of HRA borrowing.
61. The net underspend in respect of interest receivable/payable, for both general fund and HRA, is £1.158m. This has been accounted for in the overall revenue outturn position for 2021/22.
62. A summary of the Council's investment position as at 31 March 2022 is detailed at Appendix 2.

Breach of Counterparty Limit – Leeds Building Society

63. As previously reported in the mid-term report, in September 2021, an investment was made with Leeds Building Society for £10.000m. According to the counterparty list provided by Link Asset Services, the suggested duration for Leeds Building Society at this time was 100 days. The duration of this investment was 110 days.
64. The intention for this investment was for a much shorter duration (45 days), however when the deal was due to be placed, Leeds Building Society reported that they had filled their cash requirement for this duration but would accept a deal with a longer maturity date.
65. This investment matured in January 2022, and was re-invested for two months, which is within the suggestion duration limit.
66. The risk of the above situation reoccurring will be mitigated through further automation of the daily dealing sheet (the spreadsheet used to record the daily cashflow activity), whereby an automated duration calculation is compared to the counterparty duration criteria.

Performance Measurement

67. One of the key requirements in the CIPFA Code of Practice is the formal introduction of performance measurement relating to investments, debt and capital financing activities. Whilst investment performance criteria have been well developed and universally accepted, debt performance indicators continue to be a more problematic area with the traditional average portfolio rate of interest acting as the main guide (table currently in paragraph 27).

68. The Council's current performance indicators were set out in the annual Treasury Management Strategy Statement 2021/22. However additional security and liquidity benchmarks will be investigated, developed and introduced for possible introduction for the next TMSS (2023/24).

Economic Background and Interest Rate Forecast

69. Over the last two years, the COVID-19 outbreak has had a significant detrimental impact on the economy of the UK and countries around the world. After the bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it was left unchanged until the rise to 0.25% in December 2021. However, since then, there have been three further rises, and Bank Rate now stands at 1.00%.

70. With most of the UK economy now opened up and nearly back to business-as-usual, the GDP numbers have been robust (9% y/y Q1 2022). This has been sufficient for the MPC to focus on tackling the second-round effects of inflation, now that the CPI measure has already risen to 6.2% and is likely to exceed 8% in April.

Other Issues – IFRS9 Fair Value of Investments

71. Following the consultation undertaken by the DLUHC on IFRS 9 the Government previously introduced a mandatory statutory override for local authorities to reverse out all unrealised fair value movements resulting from pooled investment funds. This was effective from 1 April 2018. The statutory override applies for five years from this date, until 1 April 2023. Local authorities are required to disclose the net impact of the unrealised fair value movements in a separate unusable reserve throughout the duration of the override in order for the Government to keep the override under review and to maintain a form of transparency.

72. This is relevant for the investment made with the CCLA (see paragraph 56 – 57). An investment for £10m was made, and the unrealised fair value of this investment at year end was £9.368m. The difference between the initial investment and any unrealised fair value will be held in an unusable reserve until such time that the investment is sold (realised) or the statutory over-ride no longer applies.

Overview & Scrutiny Engagement

73. Regular reports are taken to Overview & Scrutiny through the Financial Planning Task Group relating to the Council's financial position. This report will be considered by Financial Planning Task Group at their meeting on 8 July 2022.

Safeguarding Implications

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

Public Health Implications

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

Procurement Implications

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

Equalities Impact of the Proposal

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

Environmental and Climate Change Considerations

78. 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.

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

80. In March 2022, the Council made an investment with Standard Chartered Bank, which was classified as a 'sustainable deposit'. The interest rate on the investment was 0.78%, which was in line with market interest rates. Standard Chartered Bank report that the deposit is linked to sustainability and the sustainable development goals of the UN, which focus on addressing global challenges such as poverty, inequality, and prosperity.

Risks Assessment

81. All investments have been at fixed rates during the period. The Council's current average interest rate on long term debt is 3.67%, which compares favourably with similar rates of other UK local authorities.

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

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

Financial Implications

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

Workforce Implications

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

Legal Implications

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

Proposals

87. Cabinet is requested to:

- a) Note that the contents of this report are in line with the Treasury Management Strategy 2021/22 and to
- b) Recommend to Full Council consideration of this report.

Andy Brown

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

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11 May 2022

Appendices

Appendix 1 Borrowing Portfolio

Appendix 2 Investment Portfolio

Borrowing Portfolio as at 31 March 2022

PWLB – HRA	Start Date	Maturity Date	Amount £m	Interest Rate %	Annual Interest £m
PWLB – HRA	28/03/2012	28/03/2023	8.000	2.56	0.205
PWLB – HRA	28/03/2012	28/03/2024	8.000	2.70	0.216
PWLB – HRA	28/03/2012	28/03/2025	8.000	2.82	0.226
PWLB – HRA	28/03/2012	28/03/2026	10.000	2.92	0.292
PWLB – HRA	28/03/2012	28/03/2027	8.000	3.01	0.241
PWLB – HRA	28/03/2012	28/03/2028	6.000	3.08	0.185
PWLB – HRA	28/03/2012	28/03/2029	7.000	3.15	0.220
PWLB – HRA	28/03/2012	28/03/2030	8.000	3.21	0.257
PWLB – HRA	28/03/2012	28/03/2031	2.000	3.26	0.065
PWLB – HRA	28/03/2012	28/03/2032	5.000	3.30	0.165
PWLB – HRA	28/03/2012	28/03/2033	6.000	3.34	0.200
PWLB – HRA	28/03/2012	28/03/2034	7.000	3.37	0.236
PWLB – HRA	28/03/2012	28/03/2035	2.000	3.40	0.068
PWLB – HRA	28/03/2012	28/03/2037	9.000	3.44	0.309
Total PWLB – HRA			94.000		2.885

PWLB – General Fund	Start Date	Maturity Date	Amount £m	Interest Rate %	Annual Interest £m
PWLB – General Fund	15/02/2010	01/06/2023	2.000	4.45	0.890
PWLB – General Fund	15/02/2010	01/06/2024	2.000	4.49	0.090
PWLB – General Fund	14/08/2001	01/12/2025	0.123	4.875	0.006
PWLB – General Fund	15/02/2010	01/06/2026	2.000	4.54	0.091
PWLB – General Fund	21/08/2002	01/06/2027	4.000	4.75	0.190
PWLB – General Fund	08/02/2022	01/02/2028	20.000	1.95	3.900
PWLB – General Fund	29/07/1999	01/06/2028	1.000	4.75	0.048
PWLB – General Fund	15/02/2010	01/06/2028	2.000	4.56	0.091
PWLB – General Fund	08/02/2022	01/02/2029	20.000	1.98	3.960
PWLB – General Fund	29/07/1999	01/06/2029	1.000	4.75	0.048
PWLB – General Fund	29/07/1999	01/06/2030	1.000	4.75	0.046
PWLB – General Fund	20/05/2005	01/06/2030	2.000	4.45	0.089
PWLB – General Fund	05/12/2005	18/03/2031	5.000	4.25	0.213
PWLB – General Fund	29/07/1999	01/06/2031	1.000	4.75	0.048
PWLB – General Fund	20/05/2005	01/06/2031	2.000	4.45	0.089
PWLB – General Fund	21/11/2005	18/09/2031	2.000	4.25	0.085
PWLB – General Fund	20/05/2005	01/06/2032	2.000	4.45	0.089
PWLB – General Fund	04/11/1999	01/12/2032	1.500	4.625	0.069
PWLB – General Fund	20/05/2005	01/06/2033	2.000	4.45	0.089
PWLB – General Fund	15/11/1999	19/09/2033	1.000	4.25	0.042
PWLB – General Fund	20/05/2005	01/06/2034	2.000	4.45	0.089

PWLB – General Fund	Start Date	Maturity Date	Amount £m	Interest Rate %	Annual Interest £m
PWLB – General Fund	15/11/1999	18/09/2034	1.000	4.25	0.043
PWLB – General Fund	21/11/2005	18/09/2034	5.000	4.25	0.213
PWLB – General Fund	14/06/2005	14/06/2035	5.000	4.35	0.218
PWLB – General Fund	15/11/1999	18/09/2035	1.000	4.25	0.043
PWLB – General Fund	21/11/2005	18/09/2035	5.000	4.25	0.213
PWLB – General Fund	15/11/1999	18/09/2036	0.500	4.25	0.021
PWLB – General Fund	15/11/1999	18/09/2036	0.500	4.25	0.021
PWLB – General Fund	11/01/2006	01/12/2037	4.000	4.00	0.160
PWLB – General Fund	11/01/2006	01/12/2038	4.000	4.00	0.160
PWLB – General Fund	15/02/2010	01/06/2041	2.000	4.57	0.091
PWLB – General Fund	11/08/2006	01/12/2041	3.000	4.35	0.131
PWLB – General Fund	15/02/2010	01/06/2042	2.000	4.57	0.091
PWLB – General Fund	11/08/2006	01/12/2042	2.000	4.35	0.087
PWLB – General Fund	11/08/2006	01/12/2043	2.000	4.35	0.087
PWLB – General Fund	06/09/2006	01/12/2044	3.000	4.25	0.128
PWLB – General Fund	06/09/2006	01/12/2045	3.000	4.25	0.128
PWLB – General Fund	29/06/2006	18/09/2046	4.000	4.45	0.178
PWLB – General Fund	30/08/2006	01/12/2046	2.000	4.25	0.085
PWLB – General Fund	29/06/2006	18/09/2047	4.000	4.45	0.178
PWLB – General Fund	30/08/2006	01/12/2047	2.000	4.25	0.085
PWLB – General Fund	09/10/1998	18/09/2048	1.000	4.50	0.045
PWLB – General Fund	29/06/2006	18/09/2048	3.500	4.45	0.156
PWLB – General Fund	30/08/2006	01/12/2048	2.000	4.25	0.085
PWLB – General Fund	09/10/1998	18/09/2049	1.000	4.50	0.045
PWLB – General Fund	29/06/2006	18/09/2049	3.000	4.45	0.134
PWLB – General Fund	30/08/2006	01/12/2049	2.000	4.25	0.085
PWLB – General Fund	30/08/2006	01/06/2050	5.000	4.25	0.213
PWLB – General Fund	17/09/1998	18/09/2050	1.000	5.125	0.051
PWLB – General Fund	17/09/1998	18/09/2051	1.000	5.125	0.051
PWLB – General Fund	07/03/2007	01/06/2052	2.000	4.25	0.085
PWLB – General Fund	23/07/1998	03/06/2052	1.000	5.50	0.055
PWLB – General Fund	07/03/2007	01/06/2053	2.000	4.25	0.085
PWLB – General Fund	23/07/1998	02/06/2053	1.000	5.50	0.055
PWLB – General Fund	19/06/1998	01/06/2054	1.000	5.375	0.054
PWLB – General Fund	19/06/1998	01/06/2055	1.000	5.375	0.054
PWLB – General Fund	21/06/2006	01/06/2055	2.000	4.30	0.086
PWLB – General Fund	22/06/2006	18/09/2055	4.000	4.35	0.174
PWLB – General Fund	19/06/1998	01/06/2056	1.500	5.375	0.081
PWLB – General Fund	21/06/2006	01/06/2056	3.000	4.30	0.129
PWLB – General Fund	22/06/2006	01/06/2056	6.000	4.35	0.261
PWLB – General Fund	02/10/1997	25/09/2057	1.500	6.625	0.99
PWLB – General Fund	12/03/2019	13/03/2063	10.000	2.36	0.236
PWLB – General Fund	12/03/2019	13/03/2064	10.000	2.36	0.236

PWLB – General Fund		Maturity Date	Amount £m	Interest Rate %	Annual Interest £m
	Start Date				
PWLB – General Fund	12/03/2019	13/03/2065	10.000	2.36	0.236
PWLB – General Fund	08/02/2022	01/03/2071	20.000	2.00	4.000
PWLB – General Fund	08/02/2022	01/01/2072	20.000	2.00	4.000
Total PWLB - General Fund			246.123		8.335

Market Loans		Maturity Date	Amount £m	Interest Rate %	Annual Interest £m
Lender	Start Date				
Barclays Bank	03/12/2004	03/12/2054	10.000	4.45	0.445
FMS Wermanagement	07/12/2004	08/12/2053	10.000	4.45	0.445
Depfa Deutsche Pfandbriefbank	10/12/2004	10/12/2052	10.000	4.45	0.445
Dexia Credit Local	10/12/2004	11/12/2051	10.000	4.45	0.445
Barclays Bank	31/08/2005	31/08/2055	5.000	3.99	0.200
Dexia Credit Local	20/02/2006	18/02/2066	6.000	4.45	0.267
Beyern LB	05/03/2007	07/03/2067	4.000	4.2	0.168
Barclays Bank	31/07/2007	01/08/2067	6.000	4.21	0.253
Total – Market Loans			61.000		2.667

Salix Loans		Maturity Date	Amount £m	Interest Rate %	Annual Interest £m
Lender	Start Date				
SALIX1	22/11/2019	01/04/2025	0.723	0.00	0.000
SALIX2	02/03/2020	02/03/2026	3.693	0.00	0.000
SALIX3	01/07/2021	01/07/2027	3.017	0.00	0.000
Total – Salix Loans			7.433		0.000

Loan Summary	Amount £m	Annual Interest £m
PWLB – HRA	94.000	2.667
PWLB – General Fund	246.123	8.335
Market Loans	61.000	2.885
Salix Loans	7.433	0.00
Total – All Loans	408.556	13.887

* Annual interest = Total amount of annual interest payable per loan outstanding as at 31 March 2022.

This will not equal the amount of interest paid during 2021/22 – as the total loan portfolio has changed during the year.

Appendix 2

Investment Portfolio as at 31 March 2022 (compared to the counterparty list)

Counterparty	Amount £m	Interest Rate %	Start Date	Maturity Date	LAS Credit Rating **
Australia and New Zealand Banking Group	10.000	0.28	08/10/2021	08/04/2022	Orange – 12 Months
Landesbank Hessen-Thuringen	10.000	0.47	20/10/2021	20/04/2022	Orange – 12 Months
First Abu Dhabi Bank PJSC	10.000	0.28	08/11/2021	09/05/2022	Orange – 12 Months
Close Brothers	10.000	0.40	25/11/2021	25/05/2022	Red – 6 Months
Qatar National Bank	10.000	0.765	20/01/2022	20/07/2022	Red – 6 Months
Goldman Sachs	10.000	0.83	03/02/2022	03/08/2022	Red – 6 Months
Landesbank Baden-Wuerttemberg	10.000	0.75	18/02/2022	18/05/2022	Red – 6 Months
Yorkshire Building Society	10.000	0.49	23/02/2022	23/05/2022	Green – 100 Days
Standard Chartered Bank	10.000	0.78	04/03/2022	07/06/2022	Red – 6 Months
Sumitomo Mitsui Banking Corporation Europe Ltd	10.000	1.10	15/03/2022	15/06/2022	Red – 6 Months
National Bank of Kuwait	10.000	1.00	16/03/2022	16/06/2022	Red – 6 Months
DBS Bank Ltd	10.000	1.53	23/03/2022	23/09/2022	Orange – 12 Months
HSBC Overnight Account	4.700	0.54	31/03/2022	01/04/2022	Orange – 12 Months
Handelsbanken plc (Call Account)	14.989	0.65	*	35 Days Notice	Orange – 12 Months
Federated Money Market Fund	0.005	0.35	*	*	AAA
Goldman Sachs Money Market Fund	29.914	0.47	*	*	AAA
Aberdeen Investments Liquidity Fund	10.811	0.36	*	*	AAA
BNP Money Market Fund	29.110	0.40	*	*	AAA
Total	209.529				

Long Term Investment Portfolio as at 31 March 2022

Counterparty	Amount £m	Dividend Rec'd *** £m	Start Date	Current Valuation £m	Notes
CCLA – Property Fund	10.000	0.000	31/03/2022	9.368	Current valuation unrealised – no impact on revenue
Total	10.000	0.000		9.368	

* Money Market Funds/Call Account – cash can be invested and withdrawn on a daily basis (subject to maximum investment limits) so there is no start date or maturity date for the purposes of this report.

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

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

This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will therefore use counterparties within the following durational bands:

- a) Yellow – 5 years (this category is for AAA rated Government debt or its equivalent, including an investment instrument – collateralised deposits, where the investment is secured only against local authority debt, namely LOBOs, making them effectively government exposure);
- b) Dark pink – 5 years for Enhanced money market funds (EMMFs) with a credit score of 1.25
- c) Light pink – 5 years for Enhanced money market funds (EMMFs) with a credit score of 1.5
- d) Purple – 2 years;
- e) Blue – 1 year (only applies to nationalised or semi nationalised UK Banks and their subsidiaries);
- f) Orange – 1 year;
- g) Red – 6 months;
- h) Green – 100 days; and
- i) No Colour – not to be used.

The advisor's creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue preponderance to just one agency's ratings.

*** Dividends received quarterly. Due to the timing of the investment, first dividend to be received at the end of June 2022.