

## **Wiltshire Council**

### **Cabinet**

**13 June 2023**

**Subject: Treasury Management Outturn Report 2022/23**

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

**Key Decision: Non Key**

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#### **Executive Summary**

The Council approved a Treasury Management Strategy and an Annual Investment Strategy for 2022/23 at its meeting on 1 February 2022.

The Treasury Management Strategy requires an Annual Outturn Report reviewing the Treasury Management activities for the year.

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

Overall, the Council is under borrowed by £152.910m. This has avoided the Council having to pay out external interest costs in the order of £3.700m. Against budget, there is an underspend in respect of the net position on interest receivable/payable of £4.510m. These have been accounted for in the overall year end revenue outturn position for 2022/23.

#### **Proposals**

Cabinet is requested to:

- a) Note that the contents of this report are in line with the Treasury Management Strategy 2022/23; 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 2022/23.

**Terence Herbert**  
**Chief Executive**

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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 2022/23. 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 2022/23 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 1 February 2022)
  - a mid-year treasury update report (reported to Cabinet on 29 November 2022)
  - 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 2022/23, 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	2021/22 Actual £m	2022/23 Original Budget/Estimate £m	2022/23 Actual £m
<b>Capital Expenditure</b>			
General Fund	86.452	217.419	99.979
HRA	16.120	45.159	16.734
Commercial Activities	8.560	44.538	11.667
<b>Total</b>	<b>111.132</b>	<b>307.116</b>	<b>128.380</b>
<b>Capital Financing Requirement</b>			
General Fund	493.470	670.466	519.809
HRA	99.864	118.864	91.865
<b>Total</b>	<b>593.334</b>	<b>789.330</b>	<b>611.674</b>
Gross Borrowing	408.557	529.708	398.926
External Debt	408.757	529.908	399.126
PFI Liability	64.502	59.944	59.838
<b>Over/(under) borrowing</b>	<b>(120.275)</b>	<b>(199.478)</b>	<b>(152.91)</b>
<b>Investments</b>			
Longer than one year	10.000		20.000
Under one year	209.529		157.220
<b>Total</b>	<b>219.529</b>		<b>177.220</b>

<b>Net Borrowing</b>	<b>189.028</b>		<b>221.706</b>
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7. Other prudential and treasury indicators are to be found in the main body of the report.
8. The Corporate Director of Resources and Deputy Chief Executive (S151 Officer) can confirm that borrowing was only undertaken for a capital purpose and the statutory borrowing limit (the authorised limit) was not breached.

### **The Council's Capital Expenditure and Financing**

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

<b>General Fund</b>	<b>2021/22 Actual £m</b>	<b>2022/23 Budget £m</b>	<b>2022/23 Actual £m</b>
Capital expenditure	95.012	261.957	111.646
Financed in year	55.594	78.789	56.905
<b>Unfinanced Capital Expenditure</b>	<b>39.418</b>	<b>183.168</b>	<b>54.741</b>

<b>HRA</b>	<b>2021/22 Actual £m</b>	<b>2022/23 Budget £m</b>	<b>2022/23 Actual £m</b>
Capital expenditure	16.120	45.159	16.734
Financed in year	16.120	26.159	16.734
<b>Unfinanced Capital Expenditure</b>	<b>0.000</b>	<b>19.000</b>	<b>0.000</b>

### **The Council's Overall Borrowing Need**

11. The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and resources used to pay for the capital spend. It represents the 2022/23 unfinanced capital expenditure (see above table) and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

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

### **The Capital Financing Requirement (CFR)**

13. The Council's (non HRA) underlying borrowing need (CFR) is not allowed to rise indefinitely. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision (MRP), to reduce the CFR. This is effectively a repayment of the non-Housing Revenue Account (HRA) borrowing need. There is no statutory requirement to reduce the HRA CFR. This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

14. The total CFR can also be reduced by,

- The application of additional capital financing resources, such as unapplied capital receipts; or,
- Charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP)

15. The Council's 2022/23 MRP Policy (as required by the DLUHC Guidance) was approved as part of the Treasury Management Strategy Statement on 1 February 2022.

16. The Council's CFR for the year is shown below and represents a key prudential indicator. It includes PFI and leasing schemes on the balance sheet, which increase the Council's borrowing need. No borrowing is actually required against these schemes as a borrowing facility is included within the contracts.

	2021/22 Actual £m	2022/23 Estimate £m	2022/23 Actual £m
<b>Opening CFR</b>			
CFR – General Fund	473.779	509.281	493.470
CFR – HRA	107.865	99.864	99.864
<b>CFR – Total</b>	<b>581.644</b>	<b>609.145</b>	<b>593.334</b>
Unfinanced Capital Expenditure (General Fund) as paragraph 10	39.418	183.168	54.741
Unfinanced Capital Expenditure (HRA) as paragraph 10	0.000	19.000	0.000
Less MRP/VRP	(15.273)	(17.425)	(16.018)
Less Other Long Term Liabilities (PFI)	(4.455)	(4.557)	(3.481)
Less Other Financing Movements	(8.000)	(0.000)	(16.906)
<b>Closing CFR</b>			
CFR – General Fund	493.470	670.499	519.809
CFR – HRA	99.864	118.864	91.865
<b>CFR - Total</b>	<b>593.334</b>	<b>789.330</b>	<b>611.674</b>

\* Final figures subject to audit

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

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

### Gross Borrowing and the CFR

18. In order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the CFR in the preceding year (2021/22) plus the estimates of any additional capital financing requirement for the current (2022/23) and the next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure.
19. This indicator would allow the Council some flexibility to borrow in advance of its immediate capital needs in 2022/23.
20. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator. Following on from the under/over funding of the CFR, the table also details the Council's under borrowing position.

	2021/22 Actual £m	2022/23 Budget £m	2022/23 Actual £m
Gross borrowing position	408.557	529.708	398.926
CFR	593.334	789.330	611.674
<b>(Under)/over funding of CFR</b>	<b>(184.777)</b>	<b>(259.622)</b>	<b>(212.748)</b>
PFI Liability	64.502	59.944	59.838
<b>(Under)/Over Borrowing</b>	<b>(120.275)</b>	<b>(199.678)</b>	<b>(152.910)</b>

21. To illustrate the benefit of having an under borrowed position: if the Council was to externally borrow £152.910m (over 25 years at the PWLB rate on 31/03/2023 of 4.62%), this would result in external annual interest costs in the order of £7.064m. The interest foregone on the use of internal funds would be £3.364m (based on current average interest rate of 2.20% as at 31/03/2023). This produces a net benefit of £3.700m.

### Authorised Limit

22. The authorised limit is the affordable borrowing limit required by section 3 of the Local Government Act 2003. The limit is set based on the Operational Boundary allowing for unplanned and exceptional cash movements up to 2.5% above the Operational Boundary. Once this has been set, the Council does not have the power to borrow above this level. The table below demonstrates that during 2022/23 the Council has maintained gross borrowing within its authorised limit.

### Operational Boundary

23. The operational boundary is the expected borrowing position of the Council during the year. The Operational Boundary is set based on the 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.

	2022/23 £m
Authorised Limit	831.463
Maximum Gross Borrowing Position during the year	408.557
Operational Boundary	814.087
Average Gross Borrowing Position	407.403

### Actual Financing Costs as a Proportion of Net Revenue Stream

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

	2022/23 %
Financing Costs as a Proportion of Net Revenue Stream – GF	4.98
Financing Costs as a Proportion of Net Revenue Stream – HRA	11.17

### Treasury Position as at 31 March 2023

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

26. At the end of 2022/23, the Council's treasury position was as follows,

	31 March 2022			31 March 2023		
	Principal £m	Rate/ Return %	Average Life Years	Principal £m	Rate/ Return %	Average Life Years
<b>Fixed Rate Funding</b>						
PWLB	340.123	3.60	18.57	332.123	3.30	17.79
Market	61.000	4.37	36.57	61.000	4.37	35.57
Salix Funding	7.434	0.00	4.06	5.803	0.00	3.06
<b>Variable Rate Funding</b>						
PWLB	0.00	0.00	0.00	0.00	0.00	0.00
Market	0.00	0.00	0.00	0.00	0.00	0.00
<b>Total Debt</b>	<b>408.557</b>	<b>3.67</b>	<b>19.66</b>	<b>398.926</b>	<b>3.41</b>	<b>18.87</b>
Total Investments	219.529	0.16	0.23	177.220	2.20	0.32
<b>Net Debt</b>	<b>189.028</b>			<b>221.706</b>		

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

	31 March 2022 Actual £m	31 March 2023 Actual £m
Under 12 months	38.000	44.000
12 months and within 2 years	14.000	10.000
2 years and within 5 years	40.540	61.926



5 years and within 10 years	87.017	68.500
10 years and within 20 years	68.500	58.000
20 years and within 30 years	43.500	42.500
30 years and within 40 years	41.000	48.000
40 years and within 50 years	76.000	66.000
	<b>408.557</b>	<b>398.926</b>

	2022/23 Authorised Limits %		31 March 2023 Actual %	
	Upper Limit	Lower Limit	Next Call Date *	Contractual Maturity
Under 12 months	25.00	0.00	11.03	2.51
12 months and within 2 years	25.00	0.00	2.51	2.51
2 years and within 5 years	45.00	0.00	15.52	14.02
5 years and within 10 years	75.00	0.00	17.18	17.17
10 years and above	100.00	0.00	53.76	63.79

\* 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.

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

	Actual 31 March 2022 £m	Actual 31 March 2022 %	Actual 31 March 2023 £m	Actual 31 March 2023 %
<b>Treasury Investments</b>				
Banks	114.700	52.24	87.000	49.08
Building Societies	10.000	4.56	0.000	0.00
Local Authorities	0.000	0.00	35.000	19.75
MMFs	69.840	31.81	35.081	19.80
Call Account	14.989	6.83	0.139	0.08
Local Authority Property Fund	10.000	4.56	20.000	11.29
<b>Total Treasury Investments</b>	<b>219.529</b>	<b>100.00</b>	<b>177.220</b>	<b>100.00</b>
<b>Non-Treasury Investments</b>				
Third Party Loans	10.303	47.83	8.340	25.56
Stone Circle Loan	11.240	52.17	24.294	74.44
<b>Total Non-Treasury Investments</b>	<b>21.543</b>	<b>100.00</b>	<b>32.634</b>	<b>100.00</b>
Treasury Investments	219.529	90.69	177.220	84.45

Non-Treasury Investments	21.543	9.31	32.634	15.55
<b>Total - All Investments</b>	<b>241.072</b>	<b>100.00</b>	<b>209.854</b>	<b>100.00</b>

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

Treasury Investments	Actual 31 March 2022 £m	Actual 31 March 2022 %	Actual 31 March 2023 £m	Actual 31 March 2023 %
Longer than 1 Year	10.000	4.56	20.000	11.29
Up to 1 Year	209.529	95.44	157.220	88.71
<b>Total</b>	<b>219.529</b>	<b>100.00</b>	<b>177.220</b>	<b>100.00</b>

## Treasury Management Strategy 2022/23

### Investment Strategy and Control of Interest Rate Risk

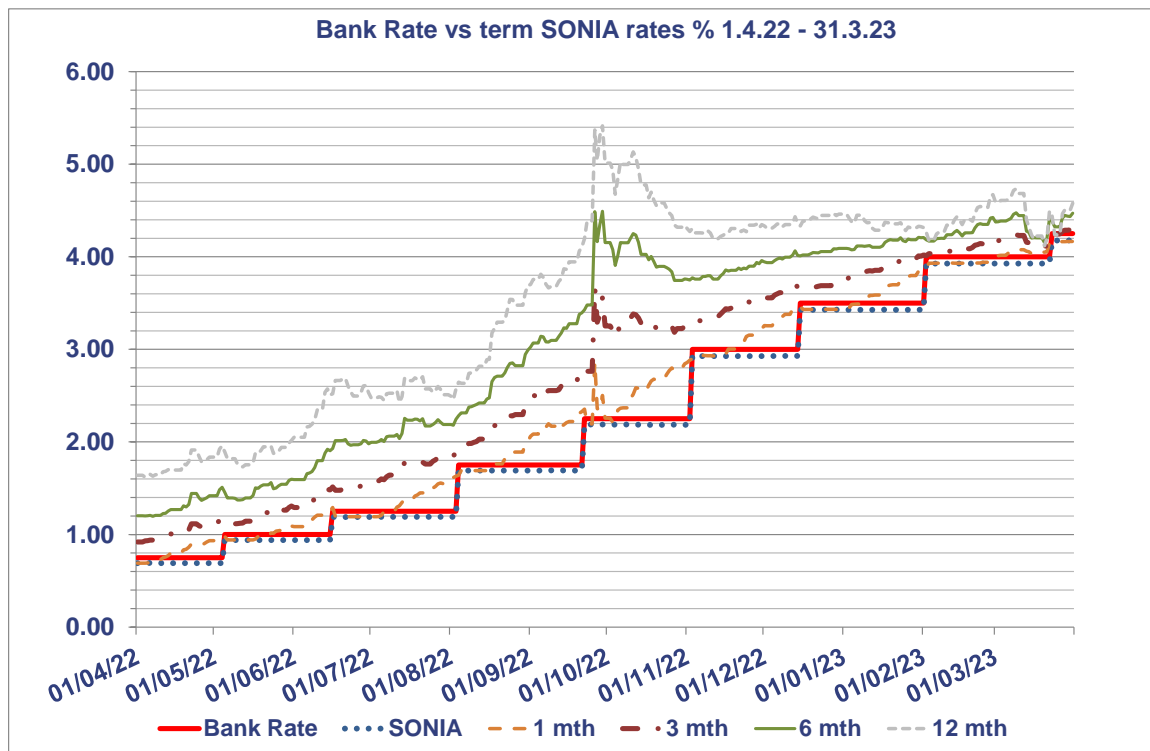
30. Investment returns picked up throughout the course of 2022/23 as central banks, including the Bank of England, adopted tighter monetary policy to respond to continuing inflationary pressures.

31. Starting at 0.75% in April 2022, bank rate moved up in stepped increases of either 0.25% or 0.50%, reaching 4.25% by the end of the financial year, with the potential for one or two increases in 2023/24.

32. The Bank of England Bank Rate and SONIA rates for 2022/23 were as follows.

	Bank Rate	SONIA	1 Month	3 Month	6 Month
<b>High</b>	4.25%	4.18%	4.17%	4.30%	4.49%
<b>High Date</b>	23/03/23	31/03/23	31/03/23	31/03/23	29/09/22
<b>Low</b>	0.75%	0.69%	0.69%	0.92%	1.20%
<b>Low Date</b>	01/04/22	01/04/22	01/04/22	01/04/22	07/04/22
<b>Average</b>	2.30%	2.24%	2.41%	2.72%	3.11%
<b>Spread</b>	3.50%	3.49%	3.48%	3.38%	3.29%

\* SONIA is the Sterling Overnight Index Average. A replacement set of indices (for LIBID) for benchmarking investments. The benchmarking rates used by the Council, are a backward-looking set of reference rates that reflect the investment yield curve at the time an investment decision was taken.



33. The change in investment rates meant that all local authorities were faced with the challenge of proactive investment of surplus cash for the first time in over a decade. This emphasised the need for a detailed working knowledge of cashflow projections, so that the appropriate balance could be maintained between maintaining cash for liquidity purposes, and laddering deposits on a rolling basis to lock in the increase in investment rates as duration was extended.
34. While the Council has taken a cautious approach to investing, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the Great Financial Crisis of 2008/09. 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.

### **Borrowing Strategy and Control of Interest Rate Risk**

35. During 2022/23, 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 initially low and minimising counterparty risk on placing investments also needed to be considered.

36. 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.

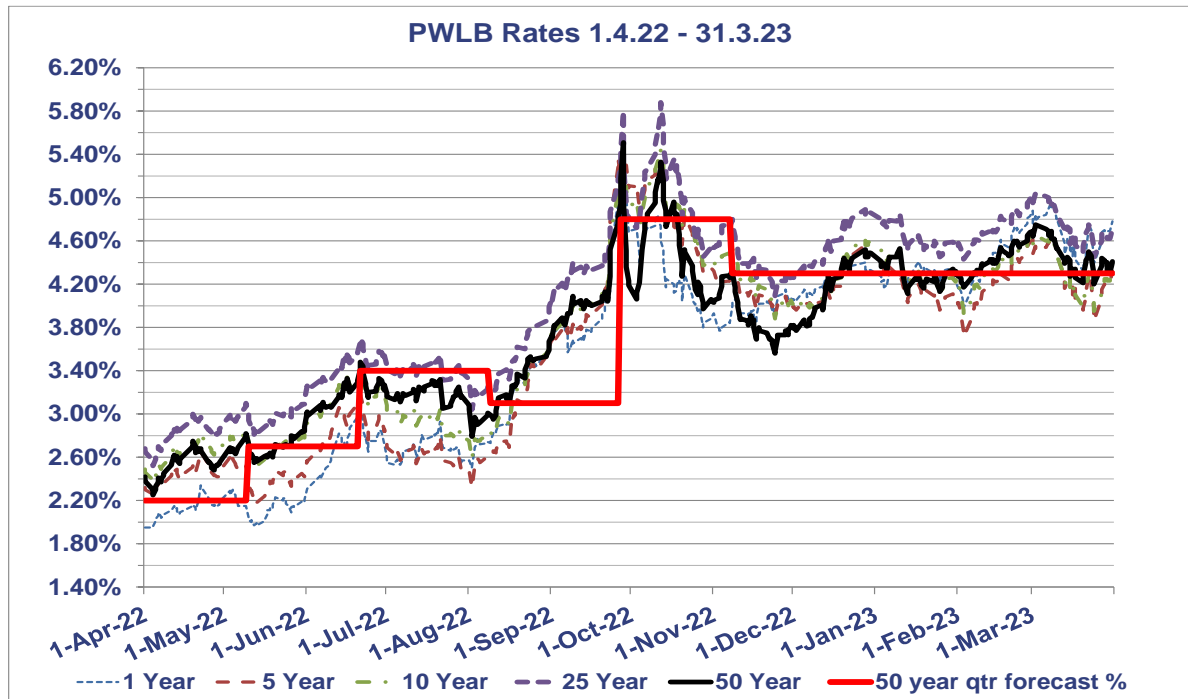
37. Against this background and the risks within the economic forecast, caution was adopted within the treasury operations. The treasury team monitored interest rates in financial markets and adopted a pragmatic strategy based upon the following principles to manage interest rate risks.

- 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.

38. Interest rate forecasts were initially suggesting only gradual rises in short, medium, and longer term fixed borrowing rates during 2022/23, but by August it had become clear that inflation was moving up towards 40-year highs, and the Bank of England engaged in monetary policy tightening at every Monetary Policy Committee meeting during 2022, and into 2023, either by increasing Bank Rate by 0.25% or 0.5% each time. The CPI measure of inflation has this month dropped to just below 10% and is expected to fall back towards 4% by year end.

39. The following table and graph show PWLB rates for range of maturity periods, the average borrowing rates, the high and low points in rates and spreads over the year.

<b>PWLB Rates</b>	<b>1 Year</b>	<b>5 Year</b>	<b>10 Year</b>	<b>25 Year</b>	<b>50 Year</b>
<b>Low</b>	1.95%	2.18%	2.36%	2.52%	2.25%
<b>Low Date</b>	01/04/2022	13/05/2022	04/04/2022	04/04/2022	04/04/2022
<b>High</b>	5.11%	5.44%	5.45%	5.88%	5.51%
<b>High Date</b>	28/09/2022	28/09/2022	12/10/2022	12/10/2022	28/09/2022
<b>Average</b>	3.57%	3.62%	3.76%	4.07%	3.74%
<b>Spread</b>	3.16%	3.26%	3.09%	3.36%	3.26%



40. 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.
41. As a general rule, short-dated gilt yields will reflect expected movements in Bank Rate, whilst medium to long-dated yields are driven primarily by the inflation outlook.
42. The current margins attributed to gilt yield prices are as follows,
- PWLB Standard Rate = gilt plus 100 basis points
  - PWLB Certainty Rate = gilt plus 80 basis points
  - Local Infrastructure Rate = gilt plus 60 basis points
43. Gilt yields have been on a continual rise since the start of 2021, peaking in the autumn of 2022. Currently gilt yields are broadly range bound between 3% and 4.25%.
44. There is likely to be a further fall in gilt yields and PWLB rates over the next one to two years as Bank Rate first rises to dampen inflationary pressures and a tight labour market, and is then cut as the economy slows, unemployment rises, and inflation moves closer to the Bank of England's 2% target.

## Borrowing Outturn

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

46. No new borrowing was undertaken during the year.

47. One naturally maturing loan was repaid during 2022/23 as follows,

Pool	Lender	Principal £m	Type	Interest Rate %	Loan Term
HRA	PWLB	8.000	Fixed Interest Rate Maturity	2.56	11 years

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

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

### **Debt Rescheduling**

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

### **Investment Outturn**

50. The Council's investment policy is governed by DLUHC investment guidance, which has been implemented in the annual investment strategy approved by the Council on 1 February 2022. This policy sets out the approach for choosing investment counterparties and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data.

51. The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

52. In January 2023, the Council purchased £10m of units in the CCLA property fund from Swindon Borough Council. 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.

53. There is a cost to both enter and exit the CCLA fund, so purchasing units directly from Swindon Borough Council meant that these costs could be avoided and the savings shared.

54. Due to a fall in property prices, the fund is currently valued at a lower price than the initial investment. This difference 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.

55. A summary of the Council's investment position as at 31 March 2023 is detailed at Appendix 2.
56. The Council maintained an average balance of £220.288m 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.
57. The internally managed funds earned an average rate of 2.20%. The comparable performance indicator is the 90 day backward looking SONIA rate, which was 1.84%.
58. The Council's total interest received from all investments for 2022/23 was £6.144m. The Council's budgeted investment return for 2022/23 was £0.304m, therefore forecast investment income (interest) for the year to date is £5.840m over achieved against budget. The interest received was higher than budgeted due to increases in interest rates, which rose more steeply and higher than forecast. In addition to this, the Council had significantly larger than anticipated cash balances on which interest was accrued, which is largely due to the underspend in the capital programme.
59. 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 £13.889m against a budget of £12.559m. This is a £1.330m overspend against budget. The overspend is due to additional borrowing undertaken in March 2022, which was after the budget was approved.
60. The net underspend in respect of interest receivable/payable, for both general fund and HRA, is £4.510m. This has been accounted for in the overall revenue outturn position for 2022/23.

### **Breach of Counterparty Limit – Handelsbanken**

61. A notice account is held with Handelsbanken, which enables the Council to diversify its investments, using a counterparty with a high credit quality with a different type of investment vehicle. The terms of this investment require the Council to give 35 days notice to withdraw funds. Interest is calculated by the bank and applied to the account automatically on a quarterly basis rather than being paid to the council. For other investment accounts that the council holds, interest is usually paid across to the council when calculated and due, so this arrangement to pay automatically into

the account is unusual. The interest rate on this account can vary, and is notified to the treasury team via email or post.

62. The monetary limit on this account is £15m, and in May 2022, the Council held £14.988m. When the interest (of £0.024m) was applied by Handelsbanken at the end of this month, the account balance was £15.013m, breaching the limit by £0.013m. On receipt of the interest, the Council immediately withdrew funds to bring the account balance to within the counterparty limit, subject to the 35 day notice restriction.
63. The risk of the above situation recurring was mitigated through a decreased level of balances held on this investment, to allow sufficient headroom for increased interest income. An automated diary entry was included on the treasury management system to alert the team to any further potential breaches.
64. However, due to a steep increase in interest rates, and the treasury management system diary warning failing, a further breach occurred at the end of November 2022. Having reduced the balance in the account, the Council held £14.933m, and interest of £0.081m was due to be applied, making the total balance on the account £15.014m. This was picked up by the treasury team before the interest was applied, and a request was made to withdraw the funds on immediate terms or to repay the interest direct to the council, but this was denied, and the limit was breached by 0.014m.
65. The risk of the above situation recurring has been withdrawn completely by significantly decreasing the level of balances held on this investment. Different types of investments are being investigated with Handelsbanken, such as a fixed term deposit. This would give more certainty in terms of interest rates and balances, whilst utilising the high credit quality offered by Handelsbanken.

## **Performance Measurement**

66. 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 26).
67. The Council's current performance indicators were set out in the annual Treasury Management Strategy Statement 2022/23. However additional security and liquidity benchmarks will be investigated, developed and introduced for possible introduction for the next TMSS (2024/25).



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

68. Against a backdrop of inflationary pressures, the easing of Covid restrictions, the Russian invasion of Ukraine, and a range of different UK Government policies, UK interest rates have been volatile right across the yield curve, from Bank Rate through to 50-year gilt yields, for the whole of 2022/23.
69. CPI inflation picked up to what should be a peak reading of 11.1% in October, although hopes for significant falls from this level will rest on the movements in the gas and electricity markets, as well as the supply-side factors impacting food prices. On balance, most commentators expect the CPI measure of inflation to drop back towards 4% by the end of 2023.
70. Bank Rate increased steadily throughout 2022/23, starting at 0.75% and finishing at 4.25%.

## **Other Issues – IFRS9 Fair Value of Investments**

71. Following the consultation undertaken by the Department of Levelling Up, Housing and Communities on IFRS 9, the Government has extended the mandatory statutory override for local authorities to reverse out all unrealised fair value movements resulting from pooled investment funds to 31st March 2025. 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 investments held with the CCLA (see paragraph 52 – 54). Total investments of £20m were made, and the unrealised fair value of these investments at year end are £17.382m. The difference between the initial investment and the 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 the Overview and Scrutiny Management Committee and its Financial Planning Task Group relating to the Council's financial position. This report will be considered by Financial Planning Task Group on 9 June 2023 and Overview and Scrutiny Management Committee on 26 July 2023.

## **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.

### **Risks Assessment**

80. All investments have been at fixed rates during the period. The Council's current average interest rate on long term debt is 3.41%, which compares favourably with similar rates of other UK local authorities.

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

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

### **Financial Implications**

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

### **Workforce Implications**

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

### **Legal Implications**

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

## **Proposals**

86. Cabinet is requested to:

- a) Note that the contents of this report are in line with the Treasury Management Strategy 2022/23 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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12 May 2023

## **Appendices**

Appendix 1 Borrowing Portfolio

Appendix 2 Investment Portfolio

## Borrowing Portfolio as at 31 March 2023

<b>PWLB – HRA</b>	<b>Start Date</b>	<b>Maturity Date</b>	<b>Amount £m</b>	<b>Interest Rate %</b>	<b>Annual Interest £m</b>
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
<b>Total PWLB – HRA</b>			<b>86.000</b>		<b>2.680</b>

<b>PWLB – General Fund</b>	<b>Start Date</b>	<b>Maturity Date</b>	<b>Amount £m</b>	<b>Interest Rate %</b>	<b>Annual Interest £m</b>
PWLB – General Fund	15/02/2010	01/06/2023	2.000	4.45	0.089
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

<b>PWLB – General Fund</b>	<b>Start Date</b>	<b>Maturity Date</b>	<b>Amount £m</b>	<b>Interest Rate %</b>	<b>Annual Interest £m</b>
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

<b>PWLB – General Fund</b>		<b>Maturity Date</b>	<b>Amount £m</b>	<b>Interest Rate %</b>	<b>Annual Interest £m</b>
	<b>Start Date</b>				
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
<b>Total PWLB - General Fund</b>			<b>246.123</b>		<b>8.335</b>

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

<b>Salix Loans</b>		<b>Maturity Date</b>	<b>Amount £m</b>	<b>Interest Rate %</b>	<b>Annual Interest £m</b>
<b>Lender</b>	<b>Start Date</b>				
SALIX1	22/11/2019	01/04/2025	0.517	0.00	0.000
SALIX2	02/03/2020	02/03/2026	2.872	0.00	0.000
SALIX3	01/07/2021	01/07/2027	2.414	0.00	0.000
<b>Total – Salix Loans</b>			<b>5.803</b>		<b>0.000</b>

<b>Loan Summary</b>	<b>Amount £m</b>	<b>Annual Interest £m</b>
PWLB – HRA	86.000	2.680
PWLB – General Fund	246.123	8.335
Market Loans	61.000	2.667
Salix Loans	5.803	0.00
<b>Total – All Loans</b>	<b>398.926</b>	<b>13.682</b>

\* Annual interest = Total amount of annual interest payable per loan outstanding as at 31 March 2023.

This will not equal the amount of interest paid during 2022/23 – as the total loan portfolio has changed during the year.

**Appendix 2**

**Investment Portfolio as at 31 March 2023 (compared to the counterparty list)**

<b>Counterparty</b>	<b>Amount £m</b>	<b>Interest Rate %</b>	<b>Start Date</b>	<b>Maturity Date</b>	<b>LAS Credit Rating **</b>
London Borough of Croydon	10.000	4.25	18/10/2022	18/04/2023	Yellow – 60 Months
National Bank of Canada	10.000	4.22	09/12/2022	09/06/2023	Red – 6 Months
First Abu Dhabi Bank PJSC	10.000	4.40	09/01/2023	10/07/2023	Orange – 12 Months
National Bank of Kuwait	10.000	3.96	18/01/2023	18/04/2023	Red – 6 Months
Qatar National Bank	10.000	4.545	20/01/2023	20/07/2023	Red – 6 Months
Bayerische Landesbank London	10.000	4.00	08/02/2023	09/05/2023	Red – 6 Months
Sumitomo Mitsui Banking Corporation Europe Ltd	10.000	4.14	15/02/2023	15/05/2023	Red – 6 Months
Birmingham City Council	10.000	4.40	24/03/2023	25/09/2023	Yellow – 60 Months
Somerset Council	10.000	4.65	17/03/2023	17/10/2023	Yellow – 60 Months
West Dunbartonshire Council	5.000	4.60	20/03/2023	20/09/2023	Yellow – 60 Months
DBS Bank Ltd	10.000	4.60	23/03/2023	25/09/2023	Orange – 12 Months
Close Brothers	10.000	4.60	24/03/2023	25/09/2023	Red – 6 Months
HSBC Overnight Account	7.000	4.03	31/03/2023	01/04/2023	Orange – 12 Months
Handelsbanken plc (Call Account)	0.139	3.85	*	35 Day Notice	Orange – 12 Months
Black Rock Money Market Fund	5.091	4.09	*	*	AAA
BNP Money Market Fund	29.990	4.20	*	*	AAA
<b>Total</b>	<b>177.220</b>				

**Long Term Investment Portfolio as at 31 March 2023**

<b>Counterparty</b>	<b>Amount £m</b>	<b>Dividend Rec'd *** £m</b>	<b>Start Date</b>	<b>Current Valuation £m</b>	<b>Notes</b>
CCLA – Property Fund	10.000	0.390	31/03/2022	7.824	Current valuation unrealised – no impact on revenue
CCLA – Property Fund	10.000	0.077	31/01/2023	9.558	Current valuation unrealised – no impact on revenue
<b>Total</b>	<b>20.000</b>	<b>0.467</b>		<b>17.382</b>	

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

\*\* 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.