

**Wiltshire Council**

**Cabinet**

**15 January 2019**

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**Subject: Report on Treasury Management Strategy 2018/2019  
Half Year ended 30 September 2018**

**Cabinet member: Cllr Philip Whitehead – Finance, Procurement, ICT and  
Operational Assets**

**Key Decision: Non Key**

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### **Executive Summary**

The Council has adopted a Treasury Management Strategy and an Annual Investment Strategy for 2018/2019 at its meeting on 20 February 2018.

In addition to an Annual Report, the Treasury Management Strategy requires a mid-year report reviewing the Treasury Management activities for the current year so far. This report covers the period from 1 April 2018 to 30 September 2018.

The Council has not taken out any new external borrowing (loans) during 2018/2019.

Against budget, there is a projected variance in respect of interest receivable/payable of £0.208 million.

The Council did not breach any of its performance indicators during 2018/2019.

### **Proposals**

The Cabinet is asked to note that the contents of this report are in line with the Treasury Management Strategy.

### **Reasons for Proposals**

To give members an opportunity to consider the performance of the Council in the period to 30 September 2018 against the parameters set out in the approved Treasury Management Strategy for 2018/2019.

**Alistair Cunningham**  
**Corporate Director Growth, Investment & Place**

# Wiltshire Council

## Cabinet

15 January 2019

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**Subject: Report on Treasury Management Strategy 2018/2019  
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**Cabinet member: Cllr Philip Whitehead – Finance, Procurement, ICT and  
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### PURPOSE OF REPORT

1. The Council adopted a Treasury Management Strategy for 2018/2019 at its meeting on 20 February 2018, incorporating Prudential Indicators, Treasury Management Indicators and an Annual Investment Strategy, in accordance with the Prudential Code for Capital Finance in Local Authorities (the Prudential Code).
2. The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management recommends that members be updated on treasury management activities regularly. This report, therefore, ensures Wiltshire Council is implementing best practice in accordance with the Code.

### Economic Background and Interest Rate Forecast

3. In August 2018 the Monetary Policy Committee (MPC) voted unanimously (9-0) to increase bank rate from 0.50% to 0.75%. The MPC has indicated that bank rate would need to be in the region of 1.5% by March 2021 for inflation to stay on track. Financial markets are currently pricing in the next increase in bank rate for the second half of 2019.
4. The Council's treasury advisor, Link Asset Services, has provided the following interest rate forecast,

	2018/2019		2019/2020				2020/2021			
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>Bank Rate</b>	0.75	0.75	0.75	1.00	1.00	1.00	1.25	1.25	1.50	1.50
<b>25yr PWLB Rate</b>	2.70	2.80	2.90	2.90	3.00	3.10	3.10	3.20	3.30	3.30

5. Link Asset Services report that the interest rate forecasts are predicated on an assumption that sufficient progress is made, in respect of negotiations, to produce a reasonable agreement for Brexit, that benefits both the UK and the EU in a sensible manner. If no agreement is reached at all, then the forecasts for increases in bank rate and PWLB rates will be subject to change, most likely downwards.
6. Against this background and the specific risks associated with Brexit within the economic forecast, caution will be adopted with future treasury operations. The Director of Finance & Procurement will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

## Annual Investment Strategy 2018/2019

7. The Treasury Management Strategy Statement 2018/2019, which includes the Annual Investment Strategy, was approved by the Council on 20 February 2018. It sets out the Council's investment priorities as being:
  - Security of capital;
  - Liquidity; and
  - Yield.
8. The Council will aim to achieve the optimum return (yield) on investments commensurate with proper levels of security and liquidity. In the current economic climate, it is considered appropriate to keep investments short term to cover cash flow needs but also to seek out value available in periods up to 12 months with highly credit rated financial institutions, using our advisors suggested creditworthiness approach, including a minimum sovereign credit rating and Credit Default Swaps (CDS) overlay information.
9. Officers can confirm that the approved limits with the Annual Investment Strategy were not breached during the half year ended 30 September 2018.
10. The average level of funds available for investment purposes during the half year was £122 million. These funds were available on a temporary basis, are mainly dependent on the timing of precept payments, receipt of grants and progress on the capital programme.

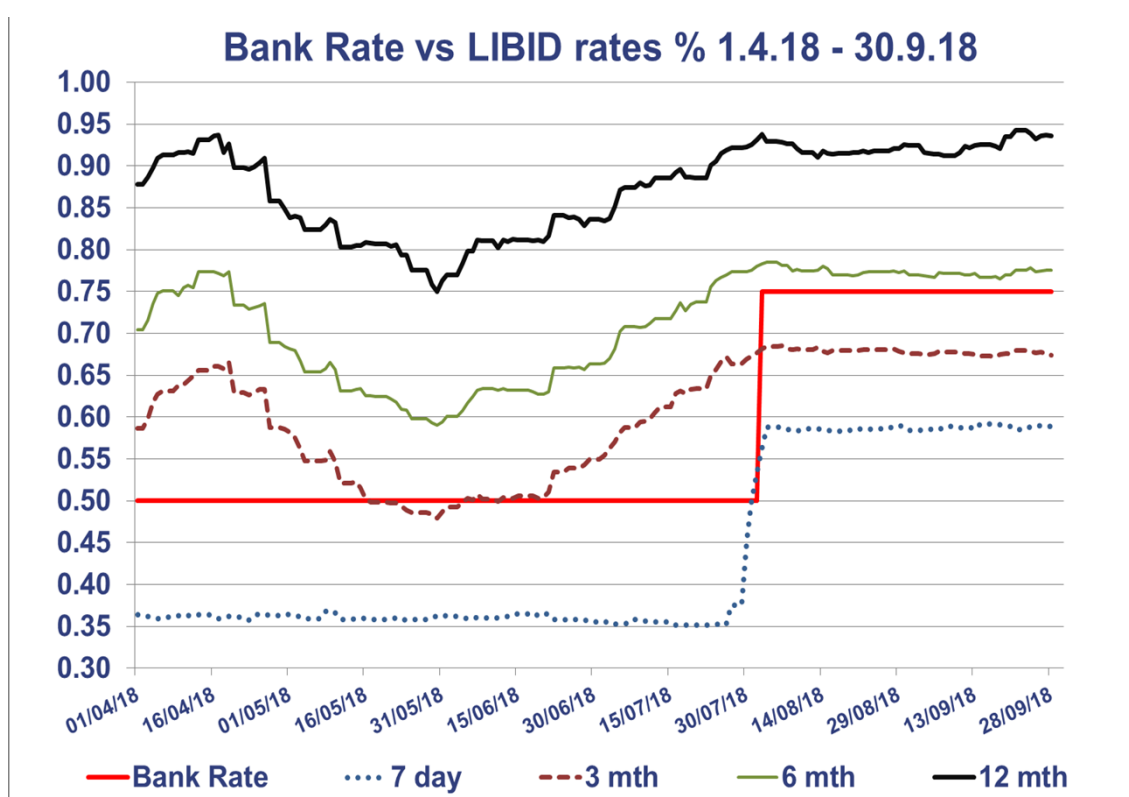
### Investment Performance for Financial Year to Date as at 30 September 2018

Benchmark	Benchmark Return (%)
7 day	0.44
1 month	0.47
3 month	0.61
6 month	0.71
Council Performance	0.65
Total Interest Earned (Accrued) – General Fund, HRA & other balances	£0.401 million

11. The Council had a Weighted Average Total Time on its fixed term investment portfolio of Maturity of 140 days.
12. As shown, the Council outperformed the 3 month benchmark by 4bps (basis points).
13. The estimate for General Fund interest receivable is currently £0.491 million for 2018/2019. This compares to a budget of £0.350 million. The projected variance is therefore £0.141 million.
14. In terms of interest payable, the estimate for the General Fund is currently £8.933 million for 2018/2019. This compares to a budget of £9.000 million. The projected variance is therefore £0.067 million.

15. The overall estimated net variance on interest receivable/payable is therefore £0.208 million. This projected variance is factored into the period 7 general fund revenue budget monitoring position reported to Cabinet in December 2018.
16. Investment rates available in the market have risen during quarter 2 as a result of the increase in Bank Rate in August. This is shown in the following table and graph.

	Bank rate	7 day	1 month	3 month	6 month	12 month
High	0.75	0.59	0.60	0.68	0.78	0.94
High date	02/08/18	14/09/18	18/09/18	06/08/18	08/08/18	21/09/18
Low	0.50	0.35	0.37	0.48	0.59	0.75
Low date	01/04/18	19/07/18	30/05/18	30/05/18	30/05/18	30/05/18
Average	0.58	0.43	0.47	0.61	0.71	0.87
Spread	0.25	0.24	0.23	0.21	0.19	0.19



### Borrowing

17. No new borrowing was undertaken during the half year.

### Debt Rescheduling

18. Debt rescheduling opportunities have been limited in the current economic climate and following the increase in the margin added to gilt yields which has impacted PWLB new borrowing rates since October 2010.
19. No debt rescheduling was undertaken during the half year.

## **Compliance with Treasury and Prudential Limits**

20. It is a statutory duty for the Council to determine and keep under review affordable borrowing limits. The Council's approved treasury and prudential Indicators (affordability limits), are included in the approved Treasury Management Strategy 2018/2019.
21. During the half year ended 30 September 2018, the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy 2018/2019 and in compliance with the Council's Treasury Management Practices. The prudential and treasury Indicators are shown in Appendix 1.
22. A summary of the Council's investments are detailed at Appendix 2, and the borrowing position is detailed in Appendix 3.

## **Other Treasury Management Issues**

### **Overdraft Facility Exceeded**

23. The Council has an overdraft limit with HSBC of £0.500 million. On 1 October 2018, this limit was exceeded by approximately £0.680 million. This was due to a reporting anomaly where the returned funds from the previous days investment in the HSBC overnight investment account were returned several hours earlier than normal; this resulted in a cashflow forecasting error on the day whereby these returned funds were effectively accounted for twice. There was a resulting minimal interest charge to the Council of £70.
24. The Council procedures have been adjusted to ensure that this error does not reoccur in the future.

### **UK Banks – Ring Fencing**

25. The largest UK banks are required by UK law to separate core retail banking services from their investment and international banking activities by 1 January 2019. This is known as 'ring fencing'. This is a regulatory initiative created in response to the global financial crisis, in order 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 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.
26. 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 considered), will be considered for investment purposes.

### **Accounting Standard - IFRS 9**

27. This accounting standard came into effect from 1 April 2018. It means that the category of investments valued under the available for sale category will be removed and any potential fluctuations in market valuations may impact onto the

Surplus or Deficit on the Provision of Services, rather than being held on the balance sheet. This change is unlikely to materially affect the commonly used types of treasury management investments (currently used by Wiltshire Council) but more specialist types of investments, (e.g. pooled funds, third party loans, commercial investments) are likely to be impacted. The impact on this authority is likely to be minimal.

### **Overview & Scrutiny Engagement**

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

### **Safeguarding Implications**

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

### **Public Health Implications**

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

### **Procurement Implications**

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

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

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

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

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

### **Risk Assessment**

34. All investments have been at fixed rates during the period. The Council's current average interest rate on long term debt is 3.76%, which compares favourably with similar rates of other UK local authorities.

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

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

### **Financial Implications**

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

### **Legal Implications**

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

## **Proposals**

39. To note that the contents of this report are in line with the Treasury Management Strategy 2018/2019.
40. To give members an opportunity to consider the performance of the Council's investments and borrowings against the parameters set out in the approved Treasury Management Strategy for 2018/2019.

**Alistair Cunningham**  
**Corporate Director Growth, Investment & Place**

**Becky Hellard**  
**Interim Director Finance & Procurement**

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12 December 2018

## **Appendices**

- Appendix 1 Prudential and Treasury Indicators
- Appendix 2 Investment Portfolio
- Appendix 3 Borrowing Portfolio
- Appendix 4 Approved Countries for Investments

## Treasury and Prudential Indicators as at 30 September 2018

Treasury Indicators	2018/2019 Budget (£m)	Half Year Actual (£m)
Authorised limit for external debt	570.6	333.9
Operational boundary for external debt	559.7	333.9
Gross external debt	313.1	334.1
Consisting of:		
Investments		112.1
Net Borrowing		222.0

Maturity structure of fixed rate borrowing	2018/2019 Budget (%)		Half Year Actual (%)	
	Upper Limit	Lower Limit	Next Call Date	Contractual Maturity
Under 12 months	25	0	15	5
12 months to 2 years	25	0	2	2
2 years to 5 years	45	0	9	7
5 years to 10 years	75	0	16	16
10 years and above	100	0	58	70

Upper limit of fixed interest rates based on net debt	100%	100%
Upper limit of variable interest rates based on net debt	48%	0%
Upper limit for principal sums invested over 364 days	£30m	£0
Local Treasury Indicator Debt Repayment (based on call dates – CIPFA Guidance)	Maximum 15% per year	15% (2018/2019)



<b>Prudential Indicators</b>	<b>2018/2019 Original Budget (£m)</b>	<b>Half Year Actual (£m)</b>
Capital Expenditure – General Fund (GF)	113.1	40.0
Capital Expenditure – HRA	10.5	9.1
Capital Financing Requirement – GF	408.2	431.0
Capital Financing Requirement – HRA	122.6	124.7
Annual change in CFR – GF		22.8
Annual change in CFR – HRA		2.1
<b>In year borrowing requirement</b>		
Ratio of financing costs to net revenue stream - GF	7.6%	5.9%
Ratio of financing costs to net revenue stream – HRA	15.2%	15.0%

## Appendix 2

### Investment Portfolio as at 30 September 2018 (compared to the counterparty list)

Borrower	Amount (£m)	Interest Rate	Start Date	Maturity	Link Credit Rating (see next page for explanatory key)
Close Brothers	3.00	0.9	20/04/2018	19/10/2018	Red - 6 months
Australia and New Zealand Banking Group	8.00	0.95	03/05/2018	19/10/2018	Orange - 12 months
Barclays Bank	8.00	0.70	09/05/2018	09/11/2018	Red - 6 months
Landesbank Hessen Thuringen Girobank	8.00	0.64	16/05/2018	16/11/2018	Orange - 12 months
North Lanarkshire County Council	5.00	0.70	04/06/2018	04/02/2018	Local Authority - 60 months
Commonwealth Bank of Australia	8.00	0.79	15/06/2018	15/03/2019	Orange - 12 months
DBS Bank Ltd.	8.00	0.73	18/06/2018	04/01/2019	Orange - 12 months
Lloyds TSB Bank	8.00	0.75	29/06/2018	31/12/2018	Red - 6 months
Nationwide Building Society	8.00	0.65	04/07/2018	04/01/2019	Red - 6 months
Santander UK PLC	8.00	0.73	05/07/2018	07/01/2019	Red - 6 months
Goldman Sachs International Bank	8.00	0.87	25/07/2018	25/01/2019	Red - 6 months
Sumitomo Mitsui BC Europe	8.00	0.83	25/07/2018	25/01/2019	Red - 6 months
First Abu Dhabi Bank	8.00	1.04	13/09/2018	12/09/2019	Orange - 12 months
Close Brothers	5.00	0.85	17/09/2018	15/03/2019	Red - 6 months
HSBC Overnight Investment Account	1.25	0.60	*	*	Orange - 12 months
Svenska Handelsbanken	7.99	0.75	*	*	AAA
Black Rock Money Market Fund	0.02	0.64	*	*	AAA
JP Morgan Money Market Fund	0.00	0.52	*	*	AAA
Prime Rate Money Market Fund	1.79	0.55	*	*	AAA
Goldman Sachs Money Market Fund	0.00	0.5	*	*	AAA
Standard Life Investments Liquidity Fund	0.00	0.65	*	*	AAA
<b>Total</b>	<b>112.05</b>				

\* Money Market Funds/HSBC Overnight Investment 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 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.

## Borrowing Portfolio as at 30 September 2018

Lender	Start Date	Maturity Date	Amount £m	Rate	Annual Interest £m
<b>Public Works Loan Board (PWLB)</b>					
PWLB	18/03/2016	18/03/2019	10.00	1.38	0.14
PWLB	28/03/2012	28/03/2019	4.81	1.76	0.08
PWLB	28/03/2012	28/03/2020	8.00	1.99	0.16
PWLB	28/03/2012	28/03/2021	4.00	2.21	0.09
PWLB	15/02/2010	01/06/2021	2.00	4.33	0.09
PWLB	28/03/2012	28/03/2022	8.00	2.4	0.19
PWLB	28/03/2012	28/03/2023	8.00	2.56	0.20
PWLB	15/02/2010	01/06/2023	2.00	4.45	0.09
PWLB	28/03/2012	28/03/2024	8.00	2.7	0.22
PWLB	15/02/2010	01/06/2024	2.00	4.49	0.09
PWLB	28/03/2012	28/03/2025	8.00	2.82	0.23
PWLB	14/08/2001	01/12/2025	0.12	4.875	0.01
PWLB	28/03/2012	28/03/2026	10.00	2.92	0.23
PWLB	15/02/2010	01/06/2026	2.00	4.54	0.09
PWLB	28/03/2012	28/03/2027	8.00	3.01	0.24
PWLB	21/08/2002	01/06/2027	4.00	4.75	0.19
PWLB	28/03/2012	28/03/2028	6.00	3.08	0.18
PWLB	29/07/1999	01/06/2028	1.00	4.75	0.05
PWLB	15/02/2010	01/06/2028	2.00	4.56	0.09
PWLB	28/03/2012	28/03/2029	7.00	3.15	0.22
PWLB	29/07/1999	01/06/2029	1.00	4.75	0.05
PWLB	28/03/2012	28/03/2030	8.00	3.21	0.26
PWLB	29/07/1999	01/06/2030	1.00	4.75	0.05
PWLB	20/05/2005	01/06/2030	2.00	4.45	0.09
PWLB	05/12/2005	18/03/2031	5.00	4.25	0.21
PWLB	28/03/2012	28/03/2031	2.00	3.26	0.07
PWLB	29/07/1999	01/06/2031	1.00	4.75	0.05
PWLB	20/05/2005	01/06/2031	2.00	4.45	0.09
PWLB	21/11/2005	18/09/2031	2.00	4.25	0.09
PWLB	28/03/2012	28/03/2032	5.00	3.3	0.17
PWLB	20/05/2005	01/06/2032	2.00	4.45	0.09
PWLB	04/11/1999	01/12/2032	1.50	4.625	0.07
PWLB	28/03/2012	28/03/2033	6.00	3.34	0.20
PWLB	20/05/2005	01/06/2033	2.00	4.45	0.09
PWLB	15/11/1999	19/09/2033	1.00	4.25	0.04
PWLB	28/03/2012	28/03/2034	7.00	3.37	0.24
PWLB	20/05/2005	01/06/2034	2.00	4.45	0.09
PWLB	15/11/1999	18/09/2034	1.00	4.25	0.04
PWLB	21/11/2005	18/09/2034	5.00	4.25	0.21
PWLB	28/03/2012	28/03/2035	2.00	3.4	0.07
PWLB	14/06/2005	14/06/2035	5.00	4.35	0.22

PWLB	15/11/1999	18/09/2035	1.00	4.25	0.04
PWLB	21/11/2005	18/09/2035	5.00	4.25	0.21
PWLB	15/11/1999	18/09/2036	0.50	4.25	0.02
PWLB	15/11/1999	18/09/2036	0.50	4.25	0.02
PWLB	28/03/2012	28/03/2037	9.00	3.44	0.31
PWLB	11/01/2006	01/12/2037	4.00	4	0.16
PWLB	11/01/2006	01/12/2038	4.00	4	0.16
PWLB	15/02/2010	01/06/2041	2.00	4.57	0.09
PWLB	11/08/2006	01/12/2041	3.00	4.35	0.13
PWLB	15/02/2010	01/06/2042	2.00	4.57	0.09
PWLB	11/08/2006	01/12/2042	2.00	4.35	0.09
PWLB	11/08/2006	01/12/2043	2.00	4.35	0.09
PWLB	06/09/2006	01/12/2044	3.00	4.25	0.13
PWLB	06/09/2006	01/12/2045	3.00	4.25	0.13
PWLB	29/06/2006	18/09/2046	4.00	4.45	0.18
PWLB	30/08/2006	01/12/2046	2.00	4.25	0.09
PWLB	29/06/2006	18/09/2047	4.00	4.45	0.18
PWLB	30/08/2006	01/12/2047	2.00	4.25	0.09
PWLB	09/10/1998	18/09/2048	1.00	4.5	0.05
PWLB	29/06/2006	18/09/2048	3.50	4.45	0.16
PWLB	30/08/2006	01/12/2048	2.00	4.25	0.09
PWLB	09/10/1998	18/09/2049	1.00	4.5	0.05
PWLB	29/06/2006	18/09/2049	3.00	4.45	0.13
PWLB	30/08/2006	01/12/2049	2.00	4.25	0.09
PWLB	30/08/2006	01/06/2050	5.00	4.25	0.21
PWLB	17/09/1998	18/09/2050	1.00	5.125	0.05
PWLB	17/09/1998	18/09/2051	1.00	5.125	0.05
PWLB	07/03/2007	01/06/2052	2.00	4.25	0.09
PWLB	23/07/1998	03/06/2052	1.00	5.5	0.06
PWLB	07/03/2007	01/06/2053	2.00	4.25	0.09
PWLB	23/07/1998	02/06/2053	1.00	5.5	0.06
PWLB	19/06/1998	01/06/2054	1.00	5.375	0.05
PWLB	19/06/1998	01/06/2055	1.00	5.375	0.05
PWLB	21/06/2006	01/06/2055	2.00	4.3	0.09
PWLB	22/06/2006	18/09/2055	4.00	4.35	0.17
PWLB	19/06/1998	01/06/2056	1.50	5.375	0.08
PWLB	21/06/2006	01/06/2056	3.00	4.3	0.13
PWLB	22/06/2006	01/06/2056	6.00	4.35	0.26
PWLB	02/10/1997	25/09/2057	1.50	6.625	0.10
<b>TOTAL PWLB LOANS</b>			<b>266.93</b>		<b>9.67</b>

Lender	Start Date	Maturity Date	Amount £m	Rate	Annual Interest £m
<b>LOBO Loans</b>					
Barclays Bank	03/12/2004	03/12/2054	10.00	4.45	0.45
FMS Wermanagement	07/12/2004	08/12/2053	10.00	4.45	0.45
PBB Deutsche Pfandbriefbank	10/12/2004	10/12/2052	10.00	4.45	0.45
Dexia Credit Local	10/12/2004	11/12/2051	10.00	4.45	0.45
Barclays Bank	31/08/2005	31/08/2055	5.00	3.99	0.20
Dexia Credit Local	20/02/2006	18/02/2066	6.00	4.45	0.27
Beyern LB	05/03/2007	07/03/2067	4.00	4.2	0.17
Barclays Bank	31/07/2007	01/08/2067	6.00	4.21	0.25
<b>TOTAL LOBO LOANS</b>			<b>61.00</b>		<b>2.67</b>
<b>Temporary Loans</b>					
Bristol City Council	25/09/2018	09/10/2018	6.00	0.73	0.04
<b>TOTAL TEMPORARY LOANS</b>			<b>6.00</b>		<b>0.04</b>
<b>TOTAL - ALL LOANS</b>			<b>333.93</b>		<b>12.38</b>

**Approved Countries for Investments as at 30 September 2018**

(Based on lowest available rating)

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