**Wiltshire Council**

**Cabinet**

**15 July 2024**

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|---|---|
| **Subject:** | **Treasury Management Outturn Report 2023/24** |
| **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 2023/24 at its meeting on 31 January 2023.

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.

Against budget, there is an underspend in respect of the net position on interest receivable/payable of £5.316m. This has been accounted for in the overall year end revenue outturn position for 2023/24.


**Proposals**

Cabinet is requested to:

a) Note that the contents of this report are in line with the Treasury Management Strategy 2023/24; 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 2023/24.


**Lizzie Watkin, Director of Finance and Procurement (S151 Officer)**

**Andy Brown, Deputy Chief Executive and Corporate Director of Resources**

**Terence Herbert, Chief Executive**

**Wiltshire Council**

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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 2023/24. 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 2023/24 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 31 January 2023)
   - a mid-year treasury update report (reported to Cabinet on 14 November 2023)
   - 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 2023/24, 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 | 2022/23 Actual £m | 2023/24 Original Budget/Estimate £m | 2023/24 Actual £m |
|---|---|---|---|
| **Capital Expenditure** | | | |
| General Fund | 99.979 | 147.249 | 102.695 |
| HRA | 16.734 | 30.580 | 41.145 |
| Commercial Activities | 11.667 | 21.298 | 19.582 |
| **Total** | **128.380** | **199.127** | **163.422** |
| | | | |
| **Capital Financing Requirement** | | | |
| General Fund | 519.809 | 597.951 | 560.018 |
| HRA | 91.865 | 136.864 | 83.865 |
| **Total** | **611.674** | **734.816** | **643.883** |
| | | | |
| Gross Borrowing | 398.926 | 501.664 | 383.295 |
| External Debt | 399.126 | 501.664 | 383.295 |
| PFI Liability | 59.838 | 54.931 | 54.817 |
| | | | |
| **Over/(under) borrowing** | **(152.910)** | **(178.220)** | **(205.771)** |
| | | | |
| **Investments** | | | |
| Longer than one year | 20.000 | | 20.000 |
| Under one year | 157.220 | | 92.056 |
| **Total** | **177.220** | | **112.056** |
| | | | |
| **Net Borrowing** | **221.706** | | **271.239** |

7. Other prudential and treasury indicators are to be found in the main body of the report.

8. The Director of Finance and Procurement (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.

| **General Fund** | **2022/23 Actual £m** | **2023/24 Budget £m** | **2023/24 Actual £m** |
|---|---|---|---|
| Capital expenditure | 111.646 | 168.547 | 122.277 |
| Financed in year | 56.905 | 80.178 | 61.496 |
| **Unfinanced Capital Expenditure** | **54.741** | **88.369** | **60.781** |

| **HRA** | **2022/23 Actual £m** | **2023/24 Budget £m** | **2023/24 Actual £m** |
|---|---|---|---|
| Capital expenditure | 16.734 | 30.580 | 41.145 |
| Financed in year | 16.734 | 12.580 | 41.145 |
| **Unfinanced Capital Expenditure** | **0.000** | **18.000** | **0.000** |

**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 2023/24 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.

**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 2023/24 MRP Policy (as required by the DLUHC Guidance) was approved as part of the Treasury Management Strategy Statement on 31 January 2023.

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.

| | 2022/23 Actual £m | 2023/24 Estimate £m | 2023/24 Actual £m |
|---|---|---|---|
| **Opening CFR** | | | |
| CFR – General Fund | 493.470 | 531.667 | 519.809 |
| CFR – HRA | 99.864 | 118.864 | 91.864 |
| **CFR – Total** | **593.334** | **650.531** | **611.674** |
| | | | |
| Unfinanced Capital Expenditure (General Fund) as paragraph 10 | 54.741 | 88.369 | 60.781 |
| Unfinanced Capital Expenditure (HRA) as paragraph 10 | 0.000 | 18.000 | 0.000 |
| Less MRP/VRP | (16.018) | (17.178) | (15.795) |
| Less Other Long Term Liabilities (PFI) | (3.481) | (4.907) | (3.711) |
| Less Other Financing Movements | (16.906) | (0.000) | (9.066) |
| | | | |
| **Closing CFR** | | | |
| CFR – General Fund | 519.809 | 597.951 | 560.018 |
| CFR – HRA | 91.865 | 136.864 | 83.865 |
| **CFR - Total** | **611.674** | **734.816** | **643.883** |

* 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 current year (2023/24) plus the estimates of any additional capital financing requirement for the next three 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 2023/24.

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.

| | 2022/23 Actual £m | 2023/24 Budget £m | 2023/24 Actual £m |
|---|---|---|---|
| Gross borrowing position | 398.926 | 501.664 | 383.295 |
| CFR | 611.674 | 734.816 | 643.883 |
| **(Under)/over funding of CFR** | **(212.748)** | **(233.152)** | **(260.588)** |
| PFI Liability | 59.838 | 54.931 | 54.817 |
| **(Under)/Over Borrowing** | **(152.910)** | **(178.221)** | **(205.771)** |

21. To illustrate the benefit of having an under borrowed position: if the Council was to externally borrow £205.771m (over 25 years at the PWLB rate on 31/03/2023 of 5.22%), this would result in external annual interest costs in the order of £10.741m. The interest foregone on the use of internal funds would be £10.638m (based on current average interest rate of 5.17% as at 31/03/2024). This produces a net benefit of £0.103m.

## 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 2023/24 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.

| | 2023/24 £m |
|---|---|
| Authorised Limit | 775.494 |
| Maximum Gross Borrowing Position during the year | 398.926 |
| Operational Boundary | 759.922 |
| Average Gross Borrowing Position | 396.008 |

## 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.

| | 2023/24 % |
|---|---|
| Financing Costs as a Proportion of Net Revenue Stream – GF | 3.47 |
| Financing Costs as a Proportion of Net Revenue Stream – HRA | 8.98 |

## Treasury Position as at 31 March 2024

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 2023/24, the Council's treasury position was as follows,

| | 31 March 2023 | | | 31 March 2024 | | |
|---|---|---|---|---|---|---|
| | Principal £m | Rate/ Return % | Average Life Years | Principal £m | Rate/ Return % | Average Life Years |
| **Fixed Rate Funding** | | | | | | |
| PWLB | 332.123 | 3.30 | 17.79 | 322.123 | 3.31 | 17.23 |
| Market | 61.000 | 4.37 | 35.57 | 57.000 | 4.37 | 33.36 |
| Salix Funding | 5.803 | 0.00 | 3.06 | 4.172 | 0.00 | 2.06 |
| **Variable Rate Funding** | | | | | | |
| 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 |
| **Total Debt** | **398.926** | **3.41** | **18.87** | **383.295** | **3.43** | **17.99** |
| Total Investments | 177.220 | 2.20 | 0.32 | 112.056 | 5.17 | 0.17 |
| **Net Debt** | **221.706** | | | **271.239** | | |

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

| | 31 March 2023 Actual £m | 31 March 2024 Actual £m |
|---|---|---|
| Under 12 months | 44.000 | 10.000 |
| 12 months and within 2 years | 10.000 | 12.485 |
| 2 years and within 5 years | 61.926 | 71.810 |
| 5 years and within 10 years | 68.500 | 48.500 |
| 10 years and within 20 years | 58.000 | 50.000 |
| 20 years and within 30 years | 42.500 | 73.500 |
| 30 years and within 40 years | 48.000 | 55.000 |
| 40 years and within 50 years | 66.000 | 62.000 |
| | **398.926** | **383.295** |

| | 2023/24 Authorised Limits % | | 31 March 2024 Actual % | |
|---|---|---|---|---|
| | **Upper Limit** | **Lower Limit** | **Next Call Date *** | **Contractual Maturity** |
| Under 12 months | 25.00 | 0.00 | 10.44 | 2.61 |
| 12 months and within 2 years | 25.00 | 0.00 | 4.82 | 3.26 |
| 2 years and within 5 years | 45.00 | 0.00 | 18.73 | 18.73 |
| 5 years and within 10 years | 75.00 | 0.00 | 12.65 | 12.65 |
| 10 years and above | 100.00 | 0.00 | 53.36 | 62.75 |

* 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 2023 £m | Actual 31 March 2023 % | Actual 31 March 2024 £m | Actual 31 March 2024 % |
|---|---|---|---|---|
| **Treasury Investments** | | | | |
| Banks | 87.000 | 49.08 | 10.000 | 8.92 |
| Local Authorities | 35.000 | 19.75 | 22.000 | 19.63 |
| MMFs | 35.081 | 19.80 | 60.056 | 53.59 |
| Call Account | 0.139 | 0.08 | 0.00 | 0.00 |
| Local Authority Property Fund | 20.000 | 11.29 | 20.000 | 17.85 |
| **Total Treasury Investments** | **177.220** | **100.00** | **112.056** | **100.00** |
| | | | | |
| **Non-Treasury Investments** | | | | |
| Third Party Loans | 8.340 | 25.56 | 7.601 | 14.31 |
| Stone Circle Loan | 24.294 | 74.44 | 45.520 | 85.69 |
| **Total Non-Treasury Investments** | **32.634** | **100.00** | **53.121** | **100.00** |
| | | | | |
| Treasury Investments | 177.220 | 84.45 | 112.056 | 67.84 |
| Non-Treasury Investments | 32.634 | 15.55 | 53.121 | 32.16 |
| **Total - All Investments** | **209.854** | **100.00** | **165.177** | **100.00** |

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

| Treasury Investments | Actual 31 March 2023 £m | Actual 31 March 2023 % | Actual 31 March 2024 £m | Actual 31 March 2024 % |
|---|---|---|---|---|
| Longer than 1 Year | 20.000 | 11.29 | 20.000 | 17.85 |
| Up to 1 Year | 157.220 | 88.71 | 92.056 | 82.15 |
| **Total** | **177.220** | **100.00** | **112.056** | **100.00** |

**Treasury Management Strategy 2023/24**

**Investment Strategy and Control of Interest Rate Risk**

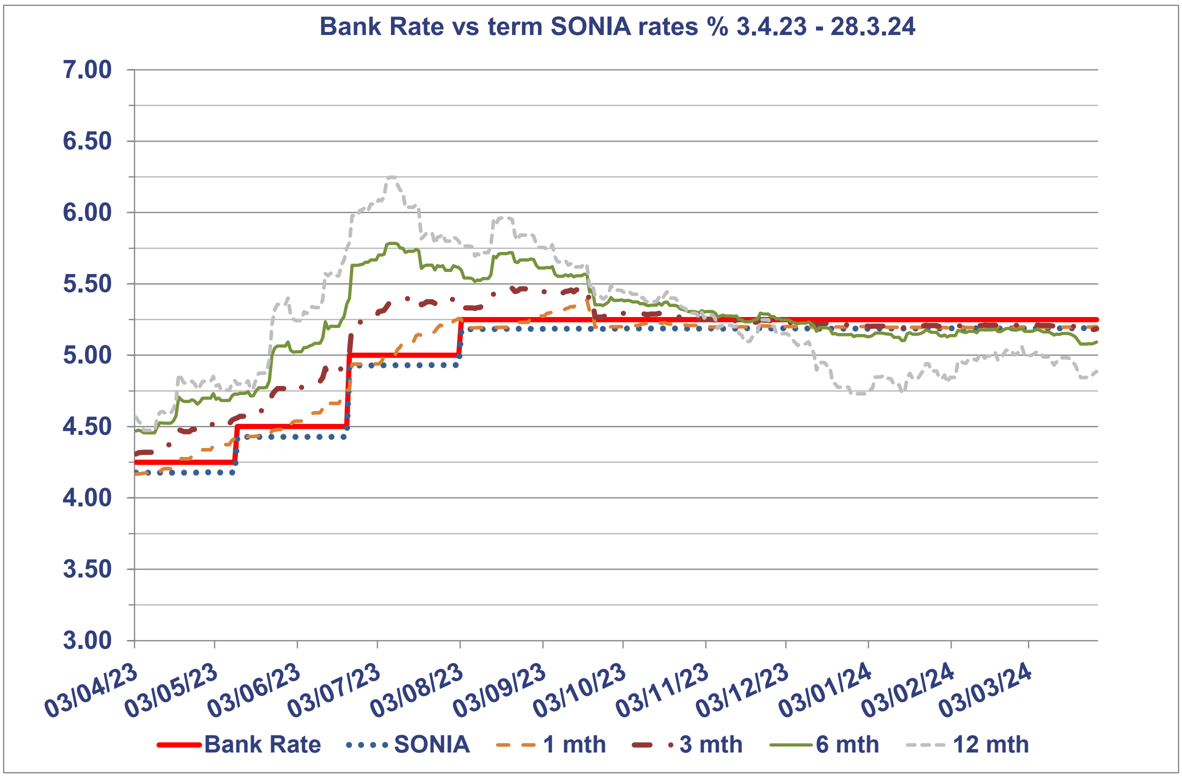
30. Investment returns picked up throughout the course of 2023/24 as the Bank of England, adopted tighter monetary policy to respond to continuing inflationary pressures.

31. Starting at 4.25% in April 2023, bank rate moved up in stepped increases of either 0.25% or 0.50%, reaching 5.25% by the end of August. There were no further increases in Bank Rate to the end of the financial year. Markets are now anticipating a Bank Rate cut in either June or August 2024.

32. The Bank of England Bank Rate and SONIA rates for 2023/24 were as follows.

| | Bank Rate | SONIA | 1 Month | 3 Month | 6 Month |
|---|---|---|---|---|---|
| **High** | 5.25% | 5.19% | 5.39% | 5.48% | 5.78% |
| **High Date** | 03/08/23 | 28/03/24 | 19/09/23 | 30/08/23 | 07/07/23 |
| **Low** | 4.25% | 4.18% | 4.17% | 4.31% | 4.46% |
| **Low Date** | 03/04/23 | 04/04/23 | 03/04/23 | 03/04/23 | 06/04/23 |
| **Average** | 5.03% | 4.96% | 5.02% | 5.13% | 5.23% |
| **Spread** | 1.00% | 1.01% | 1.22% | 1.17% | 1.33% |

* 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 global 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 2023/24, 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. This strategy was prudent, as although short term investment rates were equal to, and sometimes higher than long term borrowing costs, the latter are expected to fall back through 2024/25 and 2025/26.

36. The Council has sought to minimise additional long term borrowing at elevated rates (greater than 4%) and has focussed on a policy of internal borrowing, supplemented by temporary, short term borrowing if required.

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.

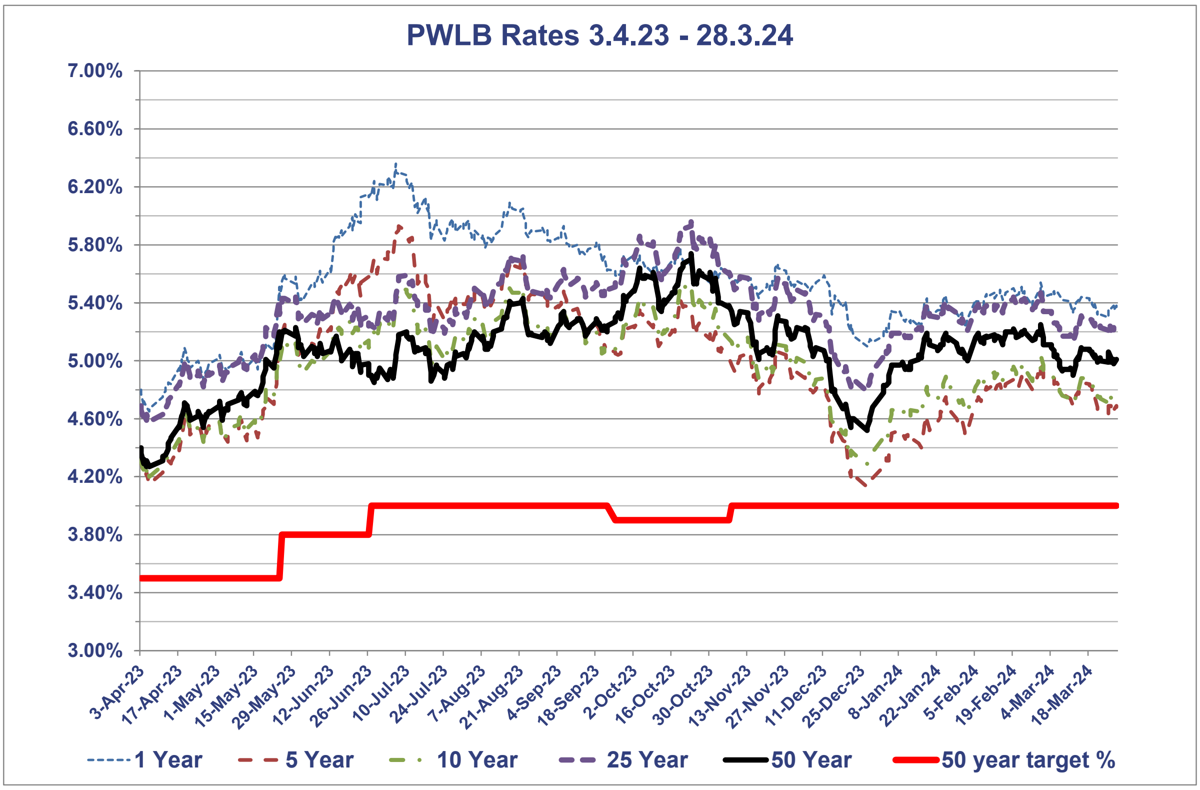
    - If it had been felt that there was a significant risk of a much sharper rise in long and short term rates than initially expected, the portfolio position would have been reappraised. Fixed rate funding would have been drawn whilst interest rates were lower than they were projected to be in the next few years.

    - However, it was anticipated that, there was a significant risk of a sharp fall in long and short term rates, so long term borrowings were postponed, and potential rescheduling from fixed rate funding into short term borrowing was considered to meet cashflow needs.

38. Interest rate forecasts initially suggested further gradual rises in short, medium, and longer term fixed borrowing rates during 2023/24. Bank rate had initially been forecast to peak at 4.5% but it is now expected to have peaked at 5.25%.

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.

| PWLB Rates | 1 Year | 5 Year | 10 Year | 25 Year | 50 Year |
|---|---|---|---|---|---|
| Low | 4.65% | 4.13% | 4.20% | 4.58% | 4.27% |
| Low Date | 06/04/2023 | 27/12/2023 | 06/04/2023 | 06/04/2023 | 05/04/2023 |
| High | 6.36% | 5.93% | 5.53% | 5.96% | 5.74% |
| High Date | 06/07/2023 | 07/07/2023 | 23/10/2023 | 23/10/2023 | 23/10/2023 |
| Average | 5.54% | 4.99% | 4.97% | 5.34% | 5.08% |
| Spread | 1.71% | 1.80% | 1.33% | 1.38% | 1.17% |




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
- HRA Borrowing Rate = gilt plus 40 basis points

43. There is likely to be a fall in Gilt yields and PWLB rates over the next one to two years, as Bank rate falls and inflation moves below the Bank of England's 2% target.
44. The Bank of England is currently embarking on a process of quantitative tightening. The Bank's original stock of gilts and corporate bonds will gradually be sold back into the market over several years. The impact this policy will have on the market pricing of gilts is currently unknown.

**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. Two naturally maturing PWLB loans were repaid during 2023/24 as follows,

| Pool | Lender | Principal £m | Type | Interest Rate % | Loan Term |
|---|---|---|---|---|---|
| HRA | PWLB | 8.000 | Fixed Interest Rate Maturity | 2.70 | 12 years |
| General Fund | PWLB | 2.000 | Fixed Interest Rate Maturity | 4.45 | 13 years |

**LOBO Repayment**

48. The Council holds five market loans defined as a 'Lender Option, Borrower Option' (LOBO) loans. The interest rate on these loans is initially fixed, but the lender has the option to propose, on pre-determined dates, a new fixed interest rate. The borrower (the Council) has the option to either accept the new rate or repay the entire loan.

49. Under normal circumstances, if the Council chooses to repay a LOBO loan outside of the predetermined dates (for example, to access cheaper finance elsewhere), it would need to pay a 'break' penalty, which can be prohibitively expensive.

50. In October 2023, the Council was approached by Bayerische Landesbank, asking whether it would consider repaying the loan held with them, without incurring any penalties. This was due to a planned reduction in, and sale of, their loan portfolio.

51. Taking into account a number of factors, including future borrowing need, interest repayments and forecast interest rates, a decision was taken to repay the loan, as follows,

| Pool | Lender | Principal £m | Type | Interest Rate % | Loan Term Remaining |
|---|---|---|---|---|---|
| General Fund | Bayerische Landesbank | 4.000 | LOBO | 4.20 | 43 Years |

**Borrowing in Advance of Need**

52. 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**

53. 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**

54. 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 31 January 2023. 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.

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

56. A summary of the Council's investment position as at 31 March 2024 is detailed at Appendix 2.

57. The Council maintained an average balance of £164.670m of internally managed funds (compared to £220.288m in 2022/23). 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.

58. The internally managed funds earned an average rate of 5.17%. The comparable performance indicator is the 90 day backward looking SONIA rate, which was 4.84%.

59. The Council's total interest received from all investments for 2023/24 was £10.383m. The Council's budgeted investment return for 2023/24 was £3.742m, therefore forecast investment income (interest) for the year to date is £6.641m 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 and remained higher than expected for longer. Particularly in the latter end of the financial year, the Council was able to take advantage of the local authority to local authority lending markets, where rates were artificially inflated due to a lack of cash in the market.

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 £13.571m against a budget of £12.246m. This is a £1.325m overspend against budget. The overspend is due to additional borrowing undertaken in March 2022, which was taken after the budget was approved.

61. The net underspend in respect of interest receivable/payable, for both general fund and HRA, is £5.316m. This has been accounted for in the overall revenue outturn position for 2023/24.

**CCLA Property Fund**

62. The Council holds £20m of units in the CCLA property fund (known as a pooled investment 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.

63. 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.

64. Accounting directive (IFRS9) states that changes in value between the cost and market value of pooled investment funds should be charged to revenue annually. However, the Secretary of State mandated that this general accounting practice should be statutorily over-ridden for local authorities, and any changes between cost and market value only need to be recognised in the accounts when the asset is sold. IFRS9 is explained in further detail in paragraph 76-77.

**Breach of Counterparty Limit – HSBC**

65. A money market fund is held with Aberdeen Investments, which enables the Council to diversify its investments, whilst maintaining a high level of liquidity.

66. In June 2023 an investment was arranged with Aberdeen Investments for £24.5m, leaving a balance of approximately £0.260m remaining in the Council's bank account. However, due to a communication and training issue, the payment to Aberdeen Investments was not prepared and not sent.

67. The monetary limit on the Council's bank account with HSBC is £10m, but as the above money market fund payment was not made, the funds in the account overnight totalled £24.760m, breaching the limit by £14.760m. The position was rectified the following day, when the previous day's investment was cancelled and replaced with another money market fund investment, and the bank account balance was reduced to a level within the counterparty limits.

68. In addition to the breach, the Council did not meet its contractual obligations under the investment made with Aberdeen Investments. However, given the long standing and good working relationship the Council holds with Aberdeen Investments, no additional charges were levied on the Council.

69. The risk of the above situation recurring has been mitigated through additional training and review, for both dealers and authorisers. The daily documentation has been improved to include guidance notes and checklists, which are more complete and unambiguous.

70. This breach was previously reported in the Mid Year Treasury Report, reviewed by Cabinet on 14 November 2023, in line with the agreed reporting processes.

**Performance Measurement**

71. 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).

72. The Council's current performance indicators were set out in the annual Treasury Management Strategy Statement 2023/24. However additional security and liquidity benchmarks will be investigated, developed and introduced for possible introduction for the next TMSS (2025/26).

**Economic Background and Interest Rate Forecast**

73. Against a backdrop of stubborn inflationary pressures and other global factors, interest rates have been volatile right across the yield curve, from Bank Rate through to 50-year gilt yields, for the whole of 2023/24.

74. In March 2024, the Bank of England left bank rate at 5.25% for the fifth time in a row, with no MPC members voting for a rise.

75. Unemployment is currently under 4%, and annual wage inflation is running at above 5%. The CPI measure of inflation, which peaked at 11.1% in October 2022, is now due to slide below the 2% target rate and remain below this benchmark for the next couple of years.

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

76. 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.

77. This is relevant for the investments held with the CCLA (see paragraph 62 – 64). Total investments of £20m were made, and the unrealised fair value of these investments at year end are £16.703m. 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**

78. 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 July 2024 and Overview and Scrutiny Management Committee on 23 July 2024.

**Safeguarding Implications**

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

**Public Health Implications**

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

**Procurement Implications**

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

**Equalities Impact of the Proposal**

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

**Environmental and Climate Change Considerations**

83. 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.

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

**Risks Assessment**

85. All investments have been at fixed rates during the period. The Council's current average interest rate on long term debt is 3.43%, which compares favourably with similar rates of other UK local authorities.

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

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

**Financial Implications**

88. These have been examined and are implicit throughout the report. A financial risk remains from the statutory IFRS 9 override for local authorities set out in paragraphs 76-77, which is currently due to cease on 31st March 2025. If the market does not recover sufficiently to bring the value of the fund up to the purchase price and the statutory override is not extended the council will need to meet any gap between price and valuation from the General Fund.

**Workforce Implications**

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

**Legal Implications**

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

**Proposals**

91. Cabinet is requested to:

    a) Note that the contents of this report are in line with the Treasury Management Strategy 2023/24 and to

    b) Recommend to Full Council consideration of this report.

**Andy Brown**
**Deputy Chief Executive and Corporate Director of Resources**

**Lizzie Watkin**
**Director of Finance and Procurement (S.151 Officer)**

Report Author:

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10 June 2024

**Appendices**

Appendix 1 Borrowing Portfolio
Appendix 2 Investment Portfolio

**Appendix 1**

**Borrowing Portfolio as at 31 March 2024**

| PWLB – HRA | Start Date | Maturity Date | Amount £m | Interest Rate % | Annual Interest £m |
|---|---|---|---|---|---|
| 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** | | | **78.000** | | **2.464** |

| PWLB – General Fund | Start Date | Maturity Date | Amount £m | Interest Rate % | Annual Interest £m |
|---|---|---|---|---|---|
| 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 | 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 | Start Date | Maturity Date | Amount £m | Interest Rate % | Annual Interest £m |
|---|---|---|---|---|---|
| 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 | 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 | Start Date | Maturity Date | Amount £m | Interest Rate % | Annual Interest £m |
|---|---|---|---|---|---|
| PWLB – General Fund | 08/02/2022 | 01/01/2072 | 20.000 | 2.00 | 4.000 |
| **Total PWLB - General Fund** | | | **244.123** | | **8.246** |

| Market Loans<br>Lender | Start Date | Maturity Date | Amount £m | Interest Rate % | Annual Interest £m |
|---|---|---|---|---|---|
| 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 | 0.199 |
| Dexia Credit Local | 20/02/2006 | 18/02/2066 | 6.000 | 4.45 | 0.267 |
| Barclays Bank | 31/07/2007 | 01/08/2067 | 6.000 | 4.21 | 0.253 |
| **Total – Market Loans** | | | **57.000** | | **2.499** |

| Salix Loans<br>Lender | Start Date | Maturity Date | Amount £m | Interest Rate % | Annual Interest £m |
|---|---|---|---|---|---|
| SALIX1 | 22/11/2019 | 01/04/2025 | 0.310 | 0.00 | 0.000 |
| SALIX2 | 02/03/2020 | 02/03/2026 | 2.052 | 0.00 | 0.000 |
| SALIX3 | 01/07/2021 | 01/07/2027 | 1.810 | 0.00 | 0.000 |
| **Total – Salix Loans** | | | **4.172** | | **0.000** |

| Loan Summary | Amount £m | Annual Interest £m |
|---|---|---|
| PWLB – HRA | 78.000 | 2.499 |
| PWLB – General Fund | 244.123 | 8.246 |
| Market Loans | 57.000 | 2.464 |
| Salix Loans | 4.172 | 0.00 |
| **Total – All Loans** | **398.926** | **13.209** |

* Annual interest = Total amount of annual interest payable per loan outstanding as at 31 March 2024.

This will not equal the amount of interest paid during 2023/24 – as the total loan portfolio has changed during the year.

**Appendix 2**

**Investment Portfolio as at 31 March 2024 (compared to the counterparty list)**

| Counterparty | Amount £m | Interest Rate % | Start Date | Maturity Date | LAS Credit Rating ** |
|---|---|---|---|---|---|
| First Abu Dhabi Bank PJSC | 10.000 | 6.74 | 10/07/2023 | 05/07/2024 | Orange – 12 Months |
| London Borough of Barking and Dagenham | 10.000 | 6.45 | 12/03/2024 | 12/06/2024 | Yellow – 60 Months |
| Blackpool Borough Council | 12.000 | 6.75 | 26/03/2024 | 26/06/2024 | Yellow – 60 Months |
| Black Rock Money Market Fund | 0.034 | 5.24 | * | * | AAA |
| JP Morgan Money Market Fund | 0.001 | 5.12 | * | * | AAA |
| Federated Money Market Fund | 29.416 | 5.29 | * | * | AAA |
| Aberdeen Money Market Fund | 1.460 | 5.27 | * | * | AAA |
| BNP Money Market Fund | 29.145 | 5.31 | * | * | AAA |
| **Total** | **92.056** | | | | |

**Long Term Investment Portfolio as at 31 March 2024**

| Counterparty | Amount £m | Gross Dividend Rec'd £m | Start Date | Current Valuation £m | Notes |
|---|---|---|---|---|---|
| CCLA – Property Fund | 10.000 | 0.437 | 31/03/2022 | 7.518 | Current valuation unrealised – no impact on revenue |
| CCLA – Property Fund | 10.000 | 0.533 | 31/01/2023 | 9.185 | Current valuation unrealised – no impact on revenue |
| **Total** | **20.000** | **0.970** | | **16.703** | |

* 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.