Wiltshire Council

Cabinet

1 February 2022

Subject: **Treasury Management Strategy 2022/23**

Cabinet member: **Cllr Richard Clewer – Leader of the Council and Cabinet Member responsible for MCI, Economic Development, Heritage, Arts, Tourism and Health & Wellbeing and Interim Cabinet Member responsible for Finance & Procurement, Commissioning and Commercialisation**

Key Decision: **Non Key**

Executive Summary

This report presents the Treasury Management Strategy for 2022/23 including:

a) Prudential and Treasury Indicators for the next three years
b) Debt management decisions required for 2022/23 that do not feature within the Prudential or Treasury Indicators (paragraphs 59 to 63)
c) Minimum Revenue Provision Policy 2022/23
d) Annual Investment Strategy for 2022/23

This report has been prepared in accordance with CIPFA Code of Practice for Treasury Management in the Public Services 2011, as revised December 2017. Any relevant changes within the code of practice have been reflected within the Treasury Management Strategy 2022/23.

Proposals

The Cabinet is requested to recommend that the Council:

a) Adopt the Minimum Revenue Provision Policy (paragraph 25 – 27)

b) Adopt the Prudential and Treasury Indicators (paragraphs 19 – 24, 36 – 42 and Appendix A)

c) Adopt the Annual Investment Strategy (paragraph 66 onwards).

d) Delegate to the Corporate Director of Resources & Deputy Chief Executive (S151 Officer) the authority to vary the amount of borrowing and other long-term liabilities within the Treasury Indicators for the Authorised Limit and the Operational Boundary

e) Authorise the Corporate Director of Resources & Deputy Chief Executive (S151 Officer) to agree the restructuring of existing long-term loans where savings are achievable or to enhance the long-term portfolio

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

g) Agree that any surplus cash balances not required to cover borrowing are placed in the most appropriate specified or non-specified investments, particularly where this is more cost effective than short term deposits; and delegate to the Corporate Director of Resources & Deputy Chief Executive (S151 Officer) the authority to select such funds

h) Approve the use of Property Funds (paragraph 73 - 75)

Reasons for Proposals

To enable the Council to agree a Treasury Management Strategy for 2022/23 and set Prudential Indicators that comply with statutory guidance and reflect best practice.

Andy Brown
Corporate Director of Resources, Deputy Chief Executive (S151 Officer)

Terence Herbert
Chief Executive

Wiltshire Council

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PURPOSE OF REPORT

1. This report asks the Cabinet to consider and recommend that the Council approve the Prudential and Treasury Indicators, together with the Treasury Management Strategy for 2022/23.

Background

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

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

4. The contribution that the treasury management function makes to the Council is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day to day revenue

or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

5. CIPFA defines treasury management as:

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

6. Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day to day treasury management activities. Further details on non-financial investments are given in the Capital Strategy 2022/23.

Reporting Requirements - Capital Strategy

7. The CIPFA revised 2017 Prudential and Treasury Management Codes require for 2022/23, all local authorities to prepare an additional report, the capital strategy, which will provide the following,

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

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

Reporting Requirements – Treasury Management Reporting

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

   a) Treasury Management Strategy Statement including prudential and treasury indicators, which covers the following,
      - the capital plans (including prudential indicators);
      - a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);

- the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- an investment strategy (the parameters on how investments are to be managed).

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

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

Treasury Management Strategy 2022/23

10. The strategy for 2022/23 covers two main areas,

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

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

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

12. In December 2021 CIPFA published updates to the Prudential and Treasury Management Codes. These updates include changes which will impact on future TMSS reports and the associated risk management framework. A full implementation of these codes will be required for the TMSS 2023/24.

13. In addition to the above, the DLUHC is proposing to tighten up regulations around local authorities financing capital expenditure on investments in commercial projects for yield, and has already closed access to all PWLB borrowing if such schemes are included in an authority's capital programme. The new CIPFA codes have also adopted a similar set of restrictions to discourage further capital expenditure on commercial investments for yield.

Training

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

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

Treasury Management Consultants

16. The Council uses Link Group, Treasury Solutions, as its external treasury management advisors.

17. The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

18. It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.

Capital Prudential Indicators (2022/23 –2024/25)

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

Capital Expenditure and Financing

20. This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. The Capital Programme 2022/23 will be submitted to Cabinet and Council in February

2022. The estimates for future years are based on indicative figures, as part of the Capital Programme, and are therefore subject to change.

Capital Expenditure	2020/21 Actual £million	2021/22 Estimate £million	2022/23 Estimate £million	2023/24 Estimate £million	2024/25 Estimate £million
General Fund	97.093	131.304	217.419	149.128	160.395
Housing Revenue Account (HRA)	10.114	20.956	45.159	38.309	36.391
Commercial Activities/Non-financial investments*	3.030	11.561	44.538	20.978	0.799
Total	**107.237**	**163.821**	**307.116**	**205.415**	**197.585**

* Commercial activities/non-financial investments relate to loans to third parties.

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

Financing of Capital Expenditure	2020/21 Actual £million	2021/22 Estimate £million	2022/23 Estimate £million	2023/24 Estimate £million	2024/25 Estimate £million
Capital Grants & Contributions	51.416	72.873	75.350	87.162	109.236
Capital Receipts	1.703	3.237	3.439	0.250	0.250
Revenue	1.164	0.000	0.000	0.000	0.000
Other	0.000	0.000	0.000	2.000	0.000
HRA	8.486	20.409	26.159	20.309	20.391
Total Financing (non-borrowing)	**62.769**	**96.519**	**104.948**	**109.721**	**129.877**
Net Financing Need – General Fund	44.468	67.302	183.168	77.694	51.708
Net Financing Need – HRA	0.000	0.000	19.000	18.000	16.000
Total Net Financing Need (Borrowing)	**44.468**	**67.302**	**202.168**	**95.694**	**67.708**
Total Financing	**107.237**	**163.821**	**307.116**	**205.415**	**197.585**

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

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

expenditure which has not immediately been paid for, through a revenue or capital resources, will increase the CFR.

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

24. The CFR includes any other long-term liabilities (e.g. PFI schemes, finance leases). While these increase the CFR, and therefore the Council's borrowing requirement, these types of schemes include a borrowing facility by the lease/PFI provider, and so the Council is not required to separately borrow for these schemes. The Council currently has £64.502m of such schemes within the CFR. The CFR projections are summarised in the table below,

	2020/21 Actual £million	**2021/22 Estimate £million**	**2022/23 Estimate £million**	**2023/24 Estimate £million**	**2024/25 Estimate £million**
CFR – General Fund	461.606	509.281	670.466	718.435	737.864
CFR – HRA	107.864	99.864	118.864	136.864	152.864
Total CFR	**569.470**	**609.145**	**789.330**	**855.299**	**890.728**
Movement in CFR	**23.295**	**39.675**	**180.185**	**65.969**	**35.428**
Represented by					
Net Financing Need	44.468	67.302	202.168	95.694	67.708
Less MRP/VRP	(12.955)	(15.172)	(17.425)	(24.924)	(27.115)
Less Other Long Term Liabilities (PFI)	(4.218)	(4.455)	(4.557)	(4.801)	(5.165)
Less Other Financing Movements (inc HRA)	(4.000)	(8.000)	0.000	0.000	0.000
Movement in CFR	**23.295**	**39.675**	**180.185**	**65.969**	**35.428**

Minimum Revenue Provision (MRP) Policy Statement

25. The minimum revenue provision (MRP) is the amount set aside for the repayment of the debt as a result of borrowings made to finance capital expenditure.

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

27. DLUHC regulations have been issued which require full Council to approve an MRP statement in advance of each year. The following MRP policy (section a to d) was

approved in October 2017 following a full review. It is recommended that Council approves the same MRP policy for 2022/23.

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

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

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

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

Borrowing

28. The capital expenditure plans set out in paragraph 20 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Council's capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury/prudential indicators, the current and projected debt positions and the annual investment strategy.

Current Portfolio Position

29. The overall treasury management portfolio as at 31 March 2021 and for the position as at 31 December 2021 are shown below for both borrowing and investments.

Treasury Portfolio				
	Actual 31/03/2021 £million	**Actual 31/03/2021 %**	**Current 31/12/2021 £million**	**Current 31/12/2021 %**
Treasury Investments				
Banks	79.975	52.63	114.984	62.19
Building Societies	0.000	0.00	10.000	5.41
Local Authorities	25.500	17.90	0.00	0.00
Money Market Funds	41.977	29.47	59.903	32.40
Total Treasury Investments	**142.452**	**100.00**	**184.887**	**100.00**
Treasury Borrowing				
PWLB	270.123	80.35	268.123	79.91
Market Loans	61.000	18.15	61.000	18.18
Salix	5.034	1.50	6.417	1.91
Total External Borrowing	**336.157**	**100.00**	**335.540**	**100.00**
Net Treasury Investments/ (Borrowing)	**(193.705)**		**(150.653)**	

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

External Debt General Fund	2020/21 Actual £million	2021/22 Estimate £million	2022/23 Estimate £million	2023/24 Estimate £million	2024/25 Estimate £million
Debt at 1 April	**231.327**	**234.157**	**233.540**	**416.708**	**494.402**
Actual/Estimated Change in Debt	2.830	(0.617)	183.168	77.694	51.708
Debt at 31 March	**234.157**	**233.540**	**416.708**	**494.402**	**546.110**
CFR	461.606	509.281	670.466	718.435	737.864
PFI Liability	68.957	64.502	59.944	55.143	49.978
Under/ (Over) Borrowing	**158.492**	**211.239**	**193.814**	**168.890**	**141.776**

External Debt HRA	2020/21 Actual £million	2021/22 Estimate £million	2022/23 Estimate £million	2023/24 Estimate £million	2024/25 Estimate £million
Debt at 1 April	**106.000**	**102.000**	**94.000**	**113.000**	**131.000**
Actual/Estimated Change in Debt	(4.000)	(8.000)	19.000	18.000	16.000
Debt at 31 March	**102.000**	**94.000**	**113.000**	**131.000**	**147.000**
CFR	107.864	99.864	118.864	136.864	152.864
Under/ (Over) Borrowing	**5.864**	**5.864**	**5.864**	**5.864**	**5.684**

31. Within the range of prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2022/23 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue or speculative purposes.

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

Stone Circle

33. Included in the planned capital programme are loans made to Stone Circle. The amounts are as follows.

Capital Expenditure	2020/21 Actual £million	2021/22 Estimate £million	2022/23 Estimate £million	2023/24 Estimate £million	2024/25 Estimate £million
Loans to Stone Circle	3.030	11.561	44.538	20.978	0.799

34. The Stone Circle loans have been funded entirely by borrowing, which will be funded by revenue savings generated through financial returns from the company, through mark up on the loans and through future dividends. As the Council has maintained an under borrowed position, this means that borrowing has not yet been undertaken to fund this element of the capital programme.

35. Borrowing undertaken to fund capital expenditure, including the loans to Stone Circle, is owned and financed by the Council, regardless of whether any income is

received from third party investments. This creates additional credit risk for the Council.

Treasury Indicators: Limits to Borrowing Activity

Operational Boundary

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

37. The operational boundary is based on a prudent estimate of the most likely maximum level of external borrowing for both capital expenditure and cash flow purposes, which is consistent with other budget proposals. The basis of the calculation for HRA borrowing 2022/23 is the HRA CFR.

Operational Boundary	2021/22 £million	2022/23 £million	2023/24 £million	2024/25 £million
General Fund Debt	533.735	695.023	743.236	763.028
HRA Debt	99.864	118.864	136.864	152.864
Other Long-Term Liabilities	0.200	0.200	0.200	0.200
Operational Boundary	**633.799**	**814.087**	**880.300**	**916.092**

Authorised Limit for External Debt

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

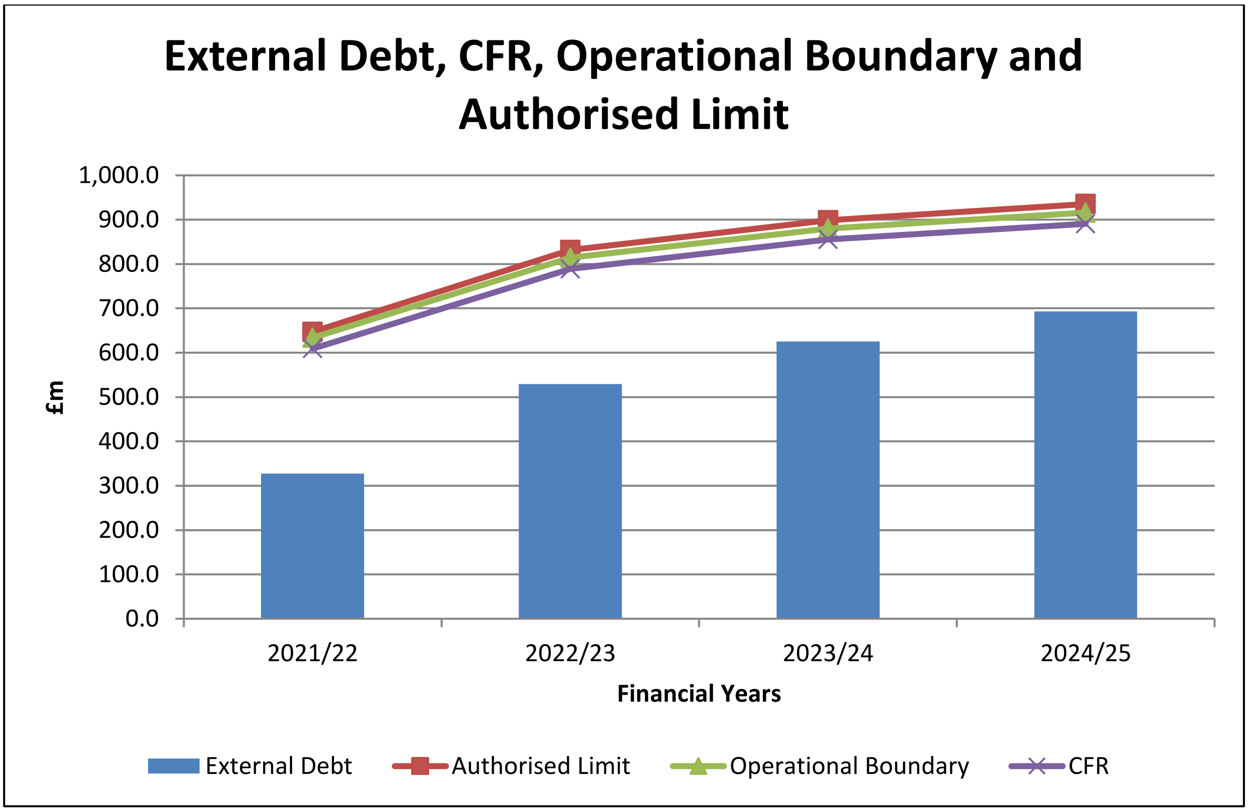
39. The authorised limit is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

40. The authorised limit is the operational boundary, including an allowance for unplanned and irregular cash movements. It is proposed that an allowance of 2.5% is continued for General Fund borrowing for 2022/23 to 2024/25, but this will be kept under review. The allowance provides for the possibility of additional borrowing during the year as a result of Government support for further schemes and provides headroom where the projection proves too optimistic (payments made earlier or receipt of income delayed against that forecast).

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

Authorised Limit	2021/22 £million	2022/23 £million	2023/24 £million	2024/25 £million
General Fund Debt	547.078	712.399	761.817	782.104
HRA Debt	99.864	118.864	136.864	152.864
Other Long-Term Liabilities	0.200	0.200	0.200	0.200
Authorised Limit	**647.142**	**831.463**	**898.881**	**935.168**

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



Monitoring and Reporting of the Prudential Indicators

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

44. The elements within the Authorised Limit and the Operational Boundary, for borrowing and other long-term liabilities require the approval of the Council. In order to give operational flexibility, members are asked to delegate to the Corporate

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

45. The operational boundary is a key management tool for in-year monitoring. It will not be significant if the operational boundary is breached temporarily on occasions due to variations in cash flow. However, a sustained or regular trend above the operational boundary is considered significant and will lead to further investigation and action as appropriate.

46. Any breach of the operational boundary will be reported to members at the earliest meeting following the breach. The authorised limit will in addition need to provide headroom over and above the operational boundary, sufficient for unusual cash movements, for example, and should not be breached.

Borrowing Strategy

47. The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need, (the Capital Financing Requirement) has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow have been used as a temporary measure (internal borrowing). This strategy is prudent, as investment returns are low and counterparty risk is still an issue that needs to be considered.

48. Against this background and the risks within the economic forecast, caution will be adopted with the 2022/23 treasury operations. The Corporate Director of Resources & Deputy Chief Executive (S151 Officer) will, through delegation and reporting, monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

    a) if it was considered that there was a significant risk of a sharp fall in long and short-term rates, (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed.

    b) if it was considered that there was a significant risk of a much sharper rise in long and short-term rates than that currently forecast, perhaps arising from an acceleration in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than projected to be in the next few years.

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

Rate and Timing of Borrowing

50. In 2022/23 one PWLB loan will mature and become repayable as follows,
    - £8m in March 2023 (HRA)

51. This loan may be refinanced depending on the Council’s overall internal borrowing position, and the nature of the current economic climate

52. The timing of any borrowing is crucial in terms of interest rates and the potential to minimise interest costs. Prior to any actual borrowing the treasury team will, in conjunction with our treasury advisers, proactively manage the interest rate position, using all information available to inform the borrowing decision.

53. It is not always possible to obtain the lowest rates of interest, as there is a risk that unforeseen events can significantly alter the level of rates, however, ongoing active monitoring of rates will mitigate against this risk.

Short Term Cash Deficits

54. Temporary loans, where both the borrower and lender have the option to redeem the loan within twelve months, are used to offset short term revenue cash deficits. They may also be used to cover short term capital requirements until longer term loans become more cost effective. The majority of these loans will be at fixed interest rates, maturing on specific dates. The strategy is that the Council shall utilise temporary loans for any short-term cash deficits that arise in respect of revenue and/or capital.

Short Term Cash Surpluses

55. It is anticipated that temporary short term (up to three months) cash surpluses will arise regularly during the year, due to timing differences between income streams and payments. Investment of these surpluses will be in specific investments (e.g. short-term Sterling investments of less than one year). Such investments will normally be short term deposits maturing on specific dates that reflect cash flow requirements at the date the deposit is made. However, under certain market conditions, money market funds will be used, particularly if they provide improved returns.

Longer Term Cash Surpluses (over three months, up to one year)

56. Some cash surpluses, for example core revenue balances, net creditors, accrued reserves and special funds such as those for insurance and PFI can be invested on a long-term basis. These cash surpluses may be used for capital financing requirements, where longer term interest rates mean that it is less cost effective to take out longer-term loans.

57. Improved returns may be obtained by placing these surpluses in money market funds. The Corporate Director of Resources & Deputy Chief Executive (S151 Officer) has delegated authority to select money market funds and appoint external cash managers within the current approved strategy and it is proposed that this authority is retained.

58. The proposed Investment Strategy for 2022/23 continues to include the use of unspecified investments (e.g. more than 12 months to maturity and for which external professional advice is required) that the Council's treasury adviser may recommend for investment of longer term cash surpluses.

Policy on Borrowing in Advance of Need

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

60. The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

61. Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

Debt Rescheduling

62. Rescheduling of current borrowing within the current debt portfolio is unlikely, as there is a very large difference between premature redemption rates and new borrowing rates.

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

Sources of Borrowing

64. Currently the PWLB certainty rate is set at gilts plus 80 basis points for both HRA and Non-HRA borrowing. However, consideration may still need to be given to funding from the following sources for the following reasons,

    a. Local Authorities – Primarily shorter dated maturities out to 3 years or so, as this is cheaper than the certainty rate
    b. Financial Institutions – Primarily insurance companies and pension funds but also some banks, out of forward dates where the objective is to avoid the 'cost of carry' or to achieve refinancing certainty over the next few years

65. Our advisors will keep the Council informed as to the relative merits of each of these alternative funding sources.

Annual Investment Strategy

Investment Policy – Management of Risk

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

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

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

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

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

b) Other information ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as credit default swaps and overlay that information on top of the credit ratings.

c) Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

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

    a) Specified Investments are those with a high level of credit quality and subject to a maturity limit of one year. Or have less than one year to run until maturity, if originally they were classified as being non-specified investments solely due to the maturity period exceeding one year.
    b) Non-specified investments are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.

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

f) Lending Limits, (amounts and maturity) for each counterparty will be set through applying the matrix in paragraph 83 and 85.

g) The Council will set a limit for the amount of its investments which are invested for longer than 365 days (see paragraph 100)

h) Investments will only be placed with counterparties from countries with a specified minimum sovereign rating (see paragraph 85)

i) The Council has engaged external consultants (see paragraphs 16 - 18) to provide expert advice on how to optimise an appropriate balance on security, liquidity and yield, given the risk appetite of the Council in the context of the expected level of cash balances and need for liquidity throughout the year.

j) All investments will be denominated in sterling.

k) As a result of the change in accounting standards for 2020/21 under IFRS 9, the Council will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the MHCLG concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31 March 2023)

70. The Council will also pursue value for money in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance (see paragraph 89). Regular monitoring of investment performance will be carried out during the year.

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

72. The Council will consider an investment in the CCLA Property Fund (a fund tailored to Local Authorities), and investment limits have been set as per non-specified investments.

73. For 2022/23, the Council request approval to consider investments into other Property funds in addition to CCLA. This would provide additional diversification of the Council's investments and the potential for earning a higher investment yield on the core investment balance without detriment to security for this type of investment.

74. Investment in property funds generates an elevated rate of return, and this will almost always introduce a greater level of risk. By carefully considering and understanding the nature of these risks, an informed decision as to the appropriateness of an investment into property funds can be taken.

75. The use of property funds can be deemed capital expenditure, and as such will be an application, (spending), of capital resources. Officers of the Council will seek guidance on the status of any fund it may consider using. Appropriate due diligence will also be undertaken before investment of this type is undertaken.

Third Party Loans

76. The Council has the power to lend monies to third parties. Appendix F sets out the Council's framework within which it may consider advancing loans to third party organisations. This has been reviewed by officers, who have concluded that it is still relevant and fit for purpose.

Changes in Investment Policy from 2021/22

77. The following changes have been made to the investment policy from the previous year.

    - The use of property funds (in addition to the CCLA fund) has been added to investment policy. An investment in this type of instrument will be used in line with guidance from the Council's treasury advisors, and appropriate levels of core cash balances.

Creditworthiness Policy

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

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

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

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

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

- If a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- In addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link Asset Services. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

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

83. In addition to the above creditworthiness criteria, the following limits will be applied to the total cumulative investments placed with an individual institution (or group of institutions where there is common ownership):

Monetary Limit	Counterparties
Up to £30 million	Money Market Funds
Up to £15 million	UK incorporated banks with a long term credit rating of at least AA
	Overseas banks that have a long term credit rating of at least AA
	Multilateral development banks
	Local authorities and other public bodies
Up to £12 million	Government backed UK banks and UK building societies and their subsidiaries
Up to £10 million	UK incorporated banks with a long term credit rating of less than AA
	Overseas banks with a long term credit rating of less than AA
	UK Building societies
	Government backed overseas banks and their subsidiaries
	HSBC (for balances within the bank account, held on an overnight basis - to differentiate from above bank limit for fixed term deposits)

Changes in Creditworthiness Policy from 2021/22

84. There have been no changes to the Creditworthiness Policy from the previous year.

Other Limits

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

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

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

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

Investment Strategy

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

87. Greater returns are usually obtainable by investing for longer periods. While most cash balances are required to manage the ups and downs of cash flow, where cash

sums can be identified that could be invested for longer periods, the potential value from longer term investments will be carefully assessed.

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

Investment Returns Expectations

88. The current forecast for the next increase in bank rate (from 0.25% to 0.50%) is in May 2022.

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

Year	Budgeted Earnings Rate
2022/23	0.50%
2023/24	0.75%
2024/25	1.00%
2025/26	1.25%
Later Years	2.00%

90. Given the above, for its cashflow generated balances, the treasury officers will seek to utilise the money market funds and short dated deposits, in order to benefit from the compounding of interest.

Changes to Investment Strategy

91. There are now several alternative types of investment opportunities, providing a different approach to funds being invested in traditional money markets.

- Ultra-Short Dated Bond Funds
- Corporate Bonds
- Property Funds

92. There are varying degrees of risks associated with the above investments, which require comprehensive appreciation and assessment. It is not just credit risk that needs to be understood, but liquidity and interest rate/market risk as well, although these can often be intertwined.

93. Investments in property represent a higher level of risk than that taken in the current portfolio, but this is offset by the higher possible level of return. Given the higher level of core cash balances, a potential investment in property funds will form an active part of the investment strategy in this financial year.

Environmental, Social and Governance (ESG) Investments

94. ESG Investments are becoming more a commonplace discussion within the wider investment community, including Local Authorities.

95. Potential changes to the CIPFA Treasury Management Code 2020 will see ESG considerations and possible investments incorporated into the TMSS 2023/24.

96. Our treasury advisors have clarified that the most important issue is ensuring that there is a clear understanding of the ESG risks that the Council is exposed to and evaluating how well it manages these risks

97. In terms of ESG risks, Governance needs to be the most important one when considering treasury investments. This is because poor governance can have a more immediate impact on the financial circumstances of an entity and the potential for a default event that would impact the amount the local authorities receive back from their investments. Those financial institutions that are viewed as having poor/weak corporate governance are generally less well rated in the first instance or have a higher propensity for being subject to negative rating action. So, this element of ESG is of high importance to the Council, as we follow investment guidance with the security, liquidity and yield principle at the core.

98. As highlighted above, there are already touchpoints with the Council's investment strategy, including the incorporation of ESG metrics into credit rating agency assessments. There are also a small, but growing number of financial institutions and fund managers promoting "ESG" products (short term cash investments), which the Council may able to utilise, whilst maintaining the critical principles of security, liquidity and yield.

Investment Treasury Indicator and Limit

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

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

Upper Limit for Principal Sums Invested for longer than 365 days			
	2022/23	2023/24	2024/25
Principal sums invested for longer than 365 days	£30m	£30m	£30m
Current Investments as at 31 December 2021 in excess of 365 days maturing in each year	£0m	£0m	£0m

Investment Risk Benchmarking

101. The Council will use an investment benchmark to assess the investment performance of its investment portfolio of the relevant SONIA (Sterling Overnight Index Average) rate dependant on the average duration of the fund.

End of Year Investment Report

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

Overview and Scrutiny Engagement

103. The Financial Planning Task Group will consider this report, with any comments reported to the Cabinet meeting.

Safeguarding Implications

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

Public Health Implications

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

Procurement Implications

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

Equalities Impact of the Proposal

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

Environmental and Climate Change Considerations

108. 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.

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

Risks Assessment

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

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

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

    a) Investment returns are expected to improve in 2022/23. However, while markets are pricing in a series of bank rate rises, actual economic circumstances may see the rates fall short of these elevated expectations.

    b) Borrowing interest rates fell to historically very low levels as a result of the covid crisis and the quantitative easing operations of the Bank of England. However, the policy of avoiding new borrowing by using spare cash balances has served the Council well over the last few years.

113. As Link's long-term forecast (beyond 10 years) for Bank Rate is 2.00%, and some PWLB rates are currently under 2.00%, there remains value in considering long-term borrowing from the PWLB where appropriate.

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

Financial Implications

115. Capital Programme figures included within this report are based on the Capital Programme budget that forms part of the overall budget setting for the council. The capital budget for 2022/23 is higher than the value of programme that has been delivered in previous years. If programme delivery is in line with previous years, using the capital programme figures has the effect of overstating some of the

estimated figures in the report, such as the Capital Financing Requirement and the under-borrowed position of the council.

116. Other financial implications have been examined and are implicit throughout the report.

Workforce Implications

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

Legal Implications

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

Options Considered

119. Future consideration will be given to alternative borrowing and investment options to improve the cost effectiveness of and return on treasury activities for the Council.

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

121. The Cabinet is requested to recommend that the Council approves and adopts the Treasury Management Strategy for 2022/23, as follows,

a) Adopt the Minimum Revenue Provision Policy (paragraph 25 – 27)

b) Adopt the Prudential and Treasury Indicators (paragraphs 19 – 24, 36 – 42 and Appendix A)

c) Adopt the Annual Investment Strategy (paragraph 66 onwards).

d) Delegate to the Corporate Director of Resources & Deputy Chief Executive (S151 Officer) the authority to vary the amount of borrowing and other long-term liabilities within the Treasury Indicators for the Authorised Limit and the Operational Boundary

e) Authorise the Corporate Director of Resources & Deputy Chief Executive (S151 Officer) to agree the restructuring of existing long-term loans where savings are achievable or to enhance the long-term portfolio

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

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

Corporate Director of Resources & Deputy Chief Executive (S151 Officer) the authority to select such funds

h) Approve the use of Property Funds (paragraph 73 - 75)

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Background Papers

None.

Appendices

Appendix A Prudential and Treasury Indicators 2022/23, 2023/24 and 2024/25
Appendix B Specified and non-specified Investments
Appendix C Approved countries for investments
Appendix D Treasury Management Scheme of Delegation
Appendix E Role of the Section 151 Officer
Appendix F Third Party Loans Policy

Capital Prudential and Treasury Indicators for 2022/23 – 2024/25

1. The Prudential and Treasury Management Codes and Treasury Guidelines require the Council to set a number of Prudential and Treasury Indicators for the financial year ahead. This appendix sets out the indicators required by the latest code.

Affordability Prudential Indicators

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

Ratio of Financing Costs to Net Revenue Stream

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

	2020/2021 Actual (%)	2021/22 Estimate (%)	2022/23 Estimate (%)	2023/24 Estimate (%)	2024/25 Estimate (%)
General Fund	6.4	5.9	6.3	9.0	12.0
HRA	13.7	12.9	11.7	13.6	15.5

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

Maturity Structure of Borrowing

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

6. In order to protect the Council from interest rate risk and to safeguard the continuity of treasury management financing costs, the following limits have been adopted. This sets out the structure of our debt portfolio and limits the exposure to changes in interest rates.

Maturity Structure of Fixed Interest Rate Borrowing 2022/23		
	Lower (%)	Upper (%)
Under 12 months	0	25
12 months to 2 years	0	25
2 years to 5 years	0	45
5 years to 10 years	0	75

10 years and above	0	100

7. In addition to the indicators (above) it is considered prudent that, under normal circumstances, no more than 15% of long term loans, excluding LOBO loans, should fall due for repayment within any one financial year and 25% in the case of LOBO loans, where maturity is deemed to be the "next call option date".

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

Specified Investments.

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

Non-Specified Investments.

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

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

Credit and Counterparty Risk

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

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

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

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

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

Accounting treatment of investments.

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

Monitoring of Investment Counterparties

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

Approved Countries for Investments

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

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

Appendix D

Treasury Management Scheme of Delegation

Full Council

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

2. Budget consideration and approval;

3. Approval of annual strategy.

Cabinet

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

2. Budget consideration and proposal;

3. Approval of the division of responsibilities;

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

Scrutiny – Finance Task Group

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

The Treasury Management Role of the Section 151 Officer

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

2. Submitting regular treasury management policy reports;

3. Submitting budgets and budget variations;

4. Receiving and reviewing management information reports;

5. Reviewing the performance of the treasury management function;

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

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

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

9. Preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term timeframe.

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

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

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

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

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

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

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

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

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

Third Party Loans Policy

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

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

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

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

Types of Loan

Loans Defined as Capital Expenditure

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

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

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

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

Other Loans

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

Loan Framework

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

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

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

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

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

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

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

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

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

Limits

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

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

Subsidy Control and Interest Rates

21. Following the UK exit from the EU the State Aid Rules ceased to have effect. The UK then became subject to the subsidy control provisions of the World Trade Organisation (WTO), existing Free Trade Arrangements (FTA), and those of the Trade and Cooperation Agreement (TCA). This change came into effect on 1 January 2021. These three set of controls have different definitions and provisions. However, it is unlikely that Wiltshire Council will be in breach of WTO and FTA arrangements if it observes the TCA Subsidy Control Provisions. It is expected that the control regime will be monitored and enforced by a body established by HM Government similar to the Competition and Markets Authority. HM Government's Technical Note on Subsidy Control observes that there may be a consultation in early 2021 to determine a "bespoke approach" with secondary legislation to follow. Nonetheless the TCA subsidy controls are enforceable now through the UK Courts.

22. The principles and terminology contained in the TCA subsidy control reflect State Aid legislation. It is to be expected that the new regulator and the Courts when implementing TCA subsidy control will have in mind the previous State Aid procedures and that there will be analogous reasoning. In general, the parameters of the new scheme will not permit subsidies from state bodies that amount to "financial assistance" to be made which confers an economic advantage on one or more economic actors not available on market terms. This, the TCA specifically identifies, includes a direct or contingent transfer of funds such as direct grants, loans or loan guarantees. Not for profit organisations often undertake commercial activities in order to support the delivery of non-commercial activities and so can be classified as "economic actors" falling into this control regime. An economic advantage given to an actor will not be a subsidy if the state is acting in a way that a rational private investor would, for example in providing loans or capital on terms that would be acceptable to a genuine private investor who is motivated by return and not policy objectives. This is because the beneficiary is not considered to be obtaining an advantage from the State but on the same terms that it could have obtained on the open market.

23. Until further certainty is given by proposed legislation and regulators the actual interest rate charged on third party loans will be set with reference to the minimum permitted within State Aid rules operational in the EU at the time of fund advance and the Council's cost of borrowing plus an appropriate credit risk margin, whichever is higher.

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

Governance Arrangements

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

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

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

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

Financial Risk

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

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

Exemptions

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