Wiltshire Council

Cabinet

19 November 2024

Subject:	**Report on Treasury Management Strategy 2024/25** **Half Year ended 30 September 2024**
Cabinet member:	**Councillor Nick Botterill - Cabinet Member for Finance, Development Management and Strategic Planning**
Key Decision:	**Non Key**

Executive Summary

The Council adopted the Treasury Management Strategy for 2024/25 at its meeting on 20 February 2024. This strategy is prepared in accordance with the CIPFA Code of Treasury Management in Public Services and includes Prudential and Treasury Indicators, Minimum Revenue Provision Policy and the Annual Investment Strategy.

In addition to an Annual Report, the Treasury Management Strategy requires a mid-year report reviewing the Treasury Management activities for the current year so far. This report covers the period from 1 April 2024 to 30 September 2024.

The Council has not taken out any new long term borrowing (loans) during 2024/25, but some may be taken towards the end of the financial year, to unwind some of the Council's under-borrowed position.

The Council has not exceeded any of its prudential indicators for the half year 1 April 2024 to 30 September 2024.

Proposals

That Cabinet approve:

a) the amendments to the Third Party Loans Policy (paragraphs 13-16 and Appendix 3).

That Cabinet note:

b) that the contents of this report are in line with the Treasury Management Strategy 2024/25.

c) the performance of the Council's investments and borrowings against the parameters set out in the approved Treasury Management Strategy for 2024/25.

Reasons for Proposals

To give members an opportunity to consider the performance of the Council in the period to 30 September 2024 against the parameters set out in the approved Treasury Management Strategy for 2024/25.

Lucy Townsend
Chief Executive

Lizzie Watkin
Director of Finance & Procurement (S151 Officer)

Wiltshire Council

Cabinet

19 November 2024

Subject:	**Report on Treasury Management Strategy 2024/25 Half Year ended 30 September 2024**
Cabinet member:	**Councillor Nick Botterill - Cabinet Member for Finance, Development Management and Strategic Planning**
Key Decision:	**Non Key**

Purpose of Report

1. The Council adopted a Treasury Management Strategy for 2024/25 at its meeting on 20 February 2024, incorporating Prudential Indicators, Treasury Management Indicators and an Annual Investment Strategy, in accordance with the Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

2. The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management recommends that members be updated on treasury management activities regularly. This report, ensures Wiltshire Council is implementing best practice in accordance with the Code, and covers the following,

   - An economic update for the first half of the 2024/25 financial year
   - A review of the Treasury Management Strategy and Annual Investment Strategy
   - The Council's capital expenditure, as set out in the Capital Strategy, and prudential indicators
   - A review of the Council's investment portfolio for 2024/25
   - A review of the Council's borrowing strategy for 2024/25
   - A review of compliance with treasury and prudential limits for 2024/25

Background

3. The Council operates a balanced budget, which, from a treasury perspective broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low-risk counterparties, providing adequate liquidity, before considering optimising investment return.

4. The second main function of the treasury management team is the funding of the Council's capital plans. The capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash planning to ensure the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans or using longer term cashflow surpluses.

Economic Background and Interest Rate Forecast

5. The Bank of England kept the Bank Rate unchanged at 5.00% in September 2024, following a 25 basis point cut in August 2024, which was the first reduction in over four years.

6. November looks to be the most likely date for a rate cut to 4.75%, but thereafter, inflation and employment data, as well as geo-political events, are likely to be the determinant for what happens for the remainder of 2024/25 and 2025/26.

7. The latest forecast from Link Group, the Council's treasury advisor, sets out a view that short, medium and long dated interest rates will fall back over the next year or two. They have provided the following forecast for bank rate. The second and third rows of the table below are expected average earnings for cash investments by local authorities for three to six months. Rates offered by individual banks may differ significantly from these averages, reflecting their different needs for borrowing short term cash at any one point in time.

	2024/25		**2025/26**				**2026/27**			
	Q3	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
Bank Rate	4.50	4.00	3.50	3.25	3.25	3.25	3.25	3.00	3.00	3.00
3 Month Average	4.50	4.00	3.50	3.30	3.30	3.30	3.30	3.00	3.00	3.00
6 Month Average	4.40	3.90	3.50	3.30	3.30	3.30	3.30	3.10	3.10	3.20

8. Gilt yields and PWLB certainty rates were less volatile than at this time last year. There was some movement downwards, this was in the shorter part of the curve, as markets positioned themselves for Bank Rate cuts.

9. At the beginning of April, the five year certainty rate was the cheapest borrowing at 4.72%, whilst the 25 year rate was relatively expensive at 5.28%.

10. Conversely, mid-September saw the low point for the whole curve, with the 5 year certainty rate falling to 4.31% before rebounding to 4.55% by the end of the month. Similarly, the 50 year certainty rate fell to 4.88% but finished the month at 5.13%.

11. Link Group forecast rates to fall back over the next two to three years as inflation dampens. The 50 years PWLB target certainty rate for new long term borrowing is currently 4.20% and is also forecast to stand at 4.20% by the end of September 2026.

12. Below is an interest forecast table for PWLB certainty rates, provided by Link Group.

	2024/25		**2025/26**				**2026/27**			
	Q3	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**

25yr PWLB Rate	5.00	4.80	4.70	4.50	4.50	4.40	4.40	4.40	4.30	4.30
50yr PWLB Rate	4.80	4.60	4.50	4.30	4.30	4.20	4.20	4.20	4.10	4.10

Treasury Management Strategy Statement and Annual Investment Strategy Update 2024/25

13. The Treasury Management Strategy Statement (TMSS) 2024/25, which includes the Annual Investment Strategy, was approved by Full Council on 20 February 2024.

14. The TMSS requires revision in the light of a structural and operational change during the year, whereby the activity, responsibility and liabilities of the Swindon and Wiltshire Local Economic Partnership (SWLEP) have transferred to the Council.

15. The SWLEP Business Growth Unit provided loan funding to companies for capital projects from the ‘Growing Place Infrastructure Fund’ (GPIF). Many of these loans may fall outside the criteria previously agreed in the Council Loan Policy, so it has been necessary to revise this policy to ensure these loans and any new loans issued are within the policy framework.

16. The proposed changes and supporting detail for the changes are set out in appendix with additional test shown in red for ease.

17. There are no further policy changes to the TMSS; the details in this report update the position in the light of the updated economic position and budgetary impact already approved.

The Council’s Capital Position (Prudential Indicators)

18. This part of the report is structured to update

- The Council’s capital expenditure plans
- How these plans are being financed
- The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow
- Compliance with the limits in place for borrowing activity

Prudential Indicator – Capital Expenditure

19. The following table shows the revised estimates for capital expenditure and the changes since the capital programme was agreed by Full Council on 20 February 2024.

Capital Expenditure	2024/25 Original Budget £m	2024/25 Revised Budget £m
General Fund	191.673	164.783

Housing Revenue Account (HRA)	45.667	44.005
Commercial Activities/Non-financial investments *	18.335	17.567
Total	**255.667**	**226.355**

* Commercial activities/non-financial investments relate to areas such as capital expenditure on investment properties, loans to third parties, such as Stone Circle

Changes to the Financing of the Capital Programme

20. The following table draws together the main strategy elements of the capital plans (above) highlighting the original supported and unsupported elements of the capital programme, and the expected financing arrangements of this capital expenditure.

21. The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This borrowing need may also be supplemented by maturing debt and other treasury requirements.

Capital Expenditure	**2024/25 Original Budget £m**	**2024/25 Forecast £m**
Total Capital Expenditure	**255.667**	**226.355**
Financed by		
Capital Receipts	2.532	4.569
Capital Grants	82.846	92.804
HRA	25.406	16.528
Revenue Contributions	0.00	7.056
Other (inc CIL/S106 Contributions)	9.236	12.790
Total Financing	**120.020**	**133.747**
Borrowing Requirement - GF	115.394	72.355
Borrowing Requirement – HRA	20.253	20.253
Borrowing Requirement – Total	**135.647**	**92.608**

Prudential Indicators for the Capital Financing Requirement (CFR), External Debt and the Operational Boundary

Prudential Indicator – Capital Financing Requirement

22. The following table shows the CFR, which is the underlying need to borrow for a capital purpose.

Prudential Indicator – CFR	**2024/25 Original Estimate £m**	**2024/25 Revised Estimate £m**
CFR – General Fund	666.197	604.226
CFR – HRA	114.322	104.118
Total CFR	**780.519**	**708.344**

23. The revised CFR is lower than the original estimate due to the reduction in the external borrowing required to support the capital programme.

Prudential Indicator – Operational Boundary

24. The following table shows the operational boundary; this is the limit beyond which the external debt is not normally expected to exceed. The operational boundary is based on a prudent estimate of the most likely maximum level of external borrowing for both capital expenditure and cashflow purposes, which is consistent with other budget proposals. This was set in the TMSS 2024/25, which was approved by Full Council on 20 February 2024 and does not change throughout the year.

Operational Boundary for External Debt	2024/25 Original Estimate £m
Operational Boundary	**804.229**

Limits to Borrowing Activity

25. The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowing less investments) will only be for a capital purpose.

26. Gross external borrowing should not, except in the short term exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2024/25 and the next two financial years. This allows some flexibility for limited early borrowing for future years.

	2024/25 Original Estimate £m	2024/25 Current Position £m	2024/25 Revised Estimate £m
Borrowing	519.311	380.480	473.088
Other Long Term Liabilities	0.200	0.200	0.200
Total Debt	**519.511**	**380.680**	**473.288**
CFR	**780.519**	**708.344**	**708.344**

Prudential Indicator – Authorised Limit

27. A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit, which represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired could be afforded in the short term, is not sustainable in the long term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Authorised Limit was set in the TMSS 2024/25, which was approved by Full Council on 20 February 2024 and does not change throughout the year.

Authorised Limit for External Debt	2024/25 Original Estimate

	£m
Total Authorised Limit	**821.447**

Borrowing

28. The Council's Revised Capital Financing Requirement (CFR) for 2024/25 is forecast as £708.344m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is usually driven by market conditions.

29. The table in paragraph 26 shows the Council currently has borrowings of £380.680m and has utilised £327.664m of cash flow funds in lieu of borrowing. This figure includes £49.309m PFI liability, which when accounted for, results in a net internal borrowing position of £278.354m.

30. As the capital programme is kept under regular review, the borrowing strategy will therefore also be regularly reviewed and revised if necessary, in order to achieve optimum value and minimise risk exposure in the long-term.

31. It is anticipated that some borrowing will be undertaken this financial year in order to unwind some of the Council's under-borrowed position.

32. The current forecast for interest expenditure for 2023/24 against budget is a small overspend of £0.034m.

33. A summary of the Council's borrowing position as at 30 September 2024 is detailed at Appendix 1.

Borrowing - Stone Circle

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

Capital Expenditure	Loans Outstanding as at 31/03/2024 £m	2024/25 Revised Expenditure £m	Forecast Total Loan as at 31/03/2025 £m
Loans to Stone Circle	45.493	17.567	63.060

35. The Stone Circle loans have been funded entirely by borrowing, which will be funded by income from interest on the loans as well as financial returns from the company through future dividends.

36. 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.

Debt Rescheduling

37. Debt rescheduling opportunities have increased over the course of the past six months and will be considered if giving rise to long-term savings. However, no debt rescheduling has been undertaken to date in this financial year.

Compliance with Treasury and Prudential Limits

38. It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. During the half year ended 30 September 2024, the Council has operated within the treasury and prudential indicators set out in the Council's TMSS 2024/25.

39. No future difficulties are envisaged for the current or future years in complying with these indicators.

Annual Investment Strategy

40. The Council will aim to achieve the optimum return on its investments commensurate with proper security and liquidity levels, consistent with the Council's risk appetite. In the current economic climate, it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods of up to 12 months with high credit rated institutions, using the Link Group creditworthiness approach.

Creditworthiness

41. Following the Government's fiscal event in September 2022, two ratings agencies (Standard & Poors and Fitch) placed the UK sovereign debt rating on negative outlook, reflecting a downside bias to the current ratings in light of expectations of weaker finances and economic outlook. However, in the first half of 2024/25, the sovereign rating has proven to be robust.

Investment Counterparty Criteria

42. The Council applies the creditworthiness service provided by Link Group. This service uses a sophisticated modelling approach, combining credit ratings, credit watches and credit outlooks in a weighted scoring system. This produces 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.

43. The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function.

Investment Portfolio 2024/25

44. As at 30/09/2024, the Council held £53.432m of cash investments and £20m of property fund investments with the CCLA. This compares to total investments of £102.056m as at 31/03/2024.

45. The average level of funds available for investment over the first six months of the year was £98.835m. The level of funds available was mainly dependant on the timing of payments, receipt of grants and progress on the capital programme.

46. A summary of the Council's investments as at 30 September 2024 are detailed at Appendix 2

Investment Performance 2024/25

47. The investment portfolio yield for the first six months of the year was 5.44% against a benchmark of 5.20% (90 day backward looking SONIA (Sterling Overnight Indexed Average) rate). Therefore, the Council outperformed the benchmark by 0.24%.

48. In sterling markets, the SONIA is the recommended replacement for the previous investment benchmark, LIBID (London Interbank Bid Rate). SONIA is administered by the Bank of England, who take responsibility for its calculation and publication. It is based on actual transactions and reflects the average of the interest rates that banks pay to borrow overnight sterling from other financial institutions and other institutional investors.

49. The current forecast for interest receivable for 2023/24 is an overachievement of £2.143m against budget. This is due to an increased level of cashflow balances held and significantly increased interest rates from those originally forecast. This position also includes forecast loan interest from Stone Circle.

50. In respect of the total interest receivable and interest payable budget, there is a combined projected net underspend of £2.109m. This forecast has been included within the figures reported in the Quarter 2 Revenue Budget Monitoring report to Cabinet.

Property Fund Investments

51. The Council holds £20m of units in the CCLA property fund. The fund is designed for local authorities seeking exposure to UK commercial property for longer term investments. The aim of this investment is to provide a higher level of investment income, together with long term capital appreciation.

52. Due to a fall in property prices, the fund is currently valued at £16.644m. 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 (until such time that the investment is sold (realised) or the statutory over-ride no longer applies). This is due to an accounting directive (IFRS9) which over-rides general accounting practice, which otherwise would see the entry cost charged to revenue in the year in which it was incurred.

53. Following a consultation undertaken by the Department of Levelling Up, Housing and Communities on IFRS 9, the Government has extended the mandatory statutory override to 31st March 2025.

54. Once the investment income on the property fund has been adjusted for the associated fees, the net dividend income for the first quarter is £0.225m, which represents a net return of 4.52%.

Overview & Scrutiny Engagement

55. Financial Planning Task Group will consider this report on 15 November 2024. Any comments from the Task Group will be reported verbally at the meeting of Cabinet. Overview & Scrutiny Management Committee will also consider the report at their meeting on 27 November 2024.

Safeguarding Implications

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

Public Health Implications

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

Procurement Implications

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

Equalities Impact of the Proposal

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

Environmental and Climate Change Considerations

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

Risks that may arise if the proposed decision and related work is not taken

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

Risks that may arise if the proposed decision is taken and actions that will be taken to manage these risks

62. All investments have been at fixed rates during the period. The Council's current average interest rate on long term debt is 3.46%, which compares favourably with similar rates of other UK local authorities.

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

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

Financial Implications

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

66. As explained within the report the council has, and continues to hold, a significantly under-borrowed position, which results in reduced borrowing costs. This position will not be able to be maintained indefinitely and with the current higher interest rates a careful balance is being managed to mitigate the need for borrowing. When there is a

need for borrowing, advice will be sought on short-term and long-term options to ensure interest rate exposure is limited.

67. The council has responded to government consultations on the IFRS9 statutory override and maintains a ‘watching brief’ on this override to ensure any change which would result in a financial impact is managed effectively and included in all financial plans.

68. The change to the Third Party Loans policy has been as a result of the transfer of operations and liabilities from SWLEP. Although the loans issued as part of the GPIF have more risk of default, they are funded by existing grant so the default risk results in less funding from the grant being available to issue as new loans.

Legal Implications

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

Workforce Implications

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

Options Considered

71. Reporting Treasury Management performance forms part of the financial control environment and it is important to provide reporting on all aspects of Treasury Management activity and performance to Cabinet and the public, including delivery to plans, variances and risks and impacts.

Conclusions

72. The report supports effective decision making, ensures a sound financial control environment and ensures members are updated on the latest position for the Treasury Management activity for 2024/25.

Lizzie Watkin – Director, Finance & Procurement (S151 Officer)

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Appendices

Appendix 1 Borrowing Portfolio
Appendix 2 Investment Portfolio
Appendix 3 Third Party Loans Policy

Appendix 1

Borrowing Portfolio as at 30 September 2024

Lender	Start Date	Maturity Date	Amount £m	Rate %	Annual Interest £m
Public Works Loan Board (PWLB)					
PWLB	28/03/2012	28/03/2025	8.000	2.82	0.226
PWLB	14/08/2001	01/12/2025	0.123	4.875	0.006
PWLB	28/03/2012	28/03/2026	10.000	2.92	0.292
PWLB	15/02/2010	01/06/2026	2.000	4.54	0.091
PWLB	28/03/2012	28/03/2027	8.000	3.01	0.241
PWLB	21/08/2002	01/06/2027	4.000	4.75	0.190
PWLB	08/02/2022	01/02/2028	20.000	1.95	0.390
PWLB	28/03/2012	28/03/2028	6.000	3.08	0.185
PWLB	29/07/1999	01/06/2028	1.000	4.75	0.048
PWLB	15/02/2010	01/06/2028	2.000	4.56	0.091
PWLB	08/02/2022	01/02/2029	20.000	1.98	0.396
PWLB	28/03/2012	28/03/2029	7.000	3.15	0.221
PWLB	29/07/1999	01/06/2029	1.000	4.75	0.048
PWLB	28/03/2012	28/03/2030	8.000	3.21	0.257
PWLB	29/07/1999	01/06/2030	1.000	4.75	0.048
PWLB	20/05/2005	01/06/2030	2.000	4.45	0.089
PWLB	05/12/2005	18/03/2031	5.000	4.25	0.213
PWLB	28/03/2012	28/03/2031	2.000	3.26	0.065
PWLB	29/07/1999	01/06/2031	1.000	4.75	0.048
PWLB	20/05/2005	01/06/2031	2.000	4.45	0.089
PWLB	21/11/2005	18/09/2031	2.000	4.25	0.085
PWLB	28/03/2012	28/03/2032	5.000	3.30	0.165
PWLB	20/05/2005	01/06/2032	2.000	4.45	0.089
PWLB	04/11/1999	01/12/2032	1.500	4.625	0.069
PWLB	28/03/2012	28/03/2033	6.000	3.34	0.200
PWLB	20/05/2005	01/06/2033	2.000	4.45	0.089
PWLB	15/11/1999	19/09/2033	1.000	4.25	0.043
PWLB	28/03/2012	28/03/2034	7.000	3.37	0.236
PWLB	20/05/2005	01/06/2034	2.000	4.45	0.089
PWLB	15/11/1999	18/09/2034	1.000	4.25	0.043
PWLB	21/11/2005	18/09/2034	5.000	4.25	0.213
PWLB	28/03/2012	28/03/2035	2.000	3.40	0.068
PWLB	14/06/2005	14/06/2035	5.000	4.35	0.218
PWLB	15/11/1999	18/09/2035	1.000	4.25	0.042
PWLB	21/11/2005	18/09/2035	5.000	4.25	0.213
PWLB	15/11/1999	18/09/2036	0.500	4.25	0.021
PWLB	15/11/1999	18/09/2036	0.500	4.25	0.021
PWLB	28/03/2012	28/03/2037	9.000	3.44	0.310
PWLB	11/01/2006	01/12/2037	4.000	4.00	0.160
PWLB	11/01/2006	01/12/2038	4.000	4.00	0.160
PWLB	15/02/2010	01/06/2041	2.000	4.57	0.091

PWLB	11/08/2006	01/12/2041	3.000	4.35	0.131
PWLB	15/02/2010	01/06/2042	2.000	4.57	0.091
PWLB	11/08/2006	01/12/2042	2.000	4.35	0.087
PWLB	11/08/2006	01/12/2043	2.000	4.35	0.087
PWLB	06/09/2006	01/12/2044	3.000	4.25	0.128
PWLB	06/09/2006	01/12/2045	3.000	4.25	0.128
PWLB	29/06/2006	18/09/2046	4.000	4.45	0.178
PWLB	30/08/2006	01/12/2046	2.000	4.25	0.085
PWLB	29/06/2006	18/09/2047	4.000	4.45	0.178
PWLB	30/08/2006	01/12/2047	2.000	4.25	0.085
PWLB	09/10/1998	18/09/2048	1.000	4.50	0.045
PWLB	29/06/2006	18/09/2048	3.500	4.45	0.156
PWLB	30/08/2006	01/12/2048	2.000	4.25	0.085
PWLB	09/10/1998	18/09/2049	1.000	4.50	0.045
PWLB	29/06/2006	18/09/2049	3.000	4.45	0.134
PWLB	30/08/2006	01/12/2049	2.000	4.25	0.085
PWLB	30/08/2006	01/06/2050	5.000	4.25	0.213
PWLB	17/09/1998	18/09/2050	1.000	5.125	0.051
PWLB	17/09/1998	18/09/2051	1.000	5.125	0.051
PWLB	07/03/2007	01/06/2052	2.000	4.25	0.085
PWLB	23/07/1998	03/06/2052	1.000	5.50	0.055
PWLB	07/03/2007	01/06/2053	2.000	4.25	0.085
PWLB	23/07/1998	02/06/2053	1.000	5.50	0.055
PWLB	19/06/1998	01/06/2054	1.000	5.375	0.054
PWLB	19/06/1998	01/06/2055	1.000	5.375	0.054
PWLB	21/06/2006	01/06/2055	2.000	4.30	0.086
PWLB	22/06/2006	18/09/2055	4.000	4.35	0.174
PWLB	19/06/1998	01/06/2056	1.500	5.375	0.081
PWLB	21/06/2006	01/06/2056	3.000	4.30	0.129
PWLB	22/06/2006	01/06/2056	6.000	4.35	0.261
PWLB	02/10/1997	25/09/2057	1.500	6.625	0.099
PWLB	13/03/2019	13/03/2063	10.000	2.36	0.236
PWLB	13/03/2019	13/03/2064	10.000	2.36	0.236
PWLB	13/03/2019	13/03/2065	10.000	2.36	0.236
PWLB	08/02/2022	31/03/2071	20.000	2.00	0.400
PWLB	08/02/2022	01/01/2072	20.000	2.00	0.400
Total PWLB Loans			**320.123**		**10.621**

Lender	Start Date	Maturity Date	Amount £m	Rate %	Annual Interest £m
<u>Market Loans – Fixed Rate</u>					
Barclays Bank	03/12/2004	03/12/2054	10.000	4.45	0.445
Barclays Bank	31/08/2005	31/08/2055	5.000	3.99	0.199
Barclays Bank	31/07/2007	01/08/2067	6.000	4.21	0.253
			21.000		**0.897**
<u>Market Loans - LOBOs</u>					
FMS Wermanagement	07/12/2004	08/12/2053	10.000	4.45	0.445

PBB 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
Dexia Credit Local	20/02/2006	18/02/2066	6.000	4.45	0.267
			36.000		**1.602**
Total Market Loans			**57.000**		**2.499**
Salix Loans					
Loan 1	01/11/2019	01/04/2025	0.207	0.00	0.000
Loan 2	01/03/2020	01/04/2026	1.641	0.00	0.000
Loan 3	01/07/2021	01/07/2027	1.509	0.00	0.000
Total Salix Loans			**3.357**		**0.000**
Total - All Loans			**380.480**		**13.120**

Appendix 2

Investment Portfolio as at 30 September 2024 (compared to the counterparty list)

Counterparty	Amount (£m)	Interest Rate (%)	Start Date	Maturity	Link Credit Rating (see next page for explanatory key)
National Bank of Kuwait (International)	10.000	5.29	04/07/2024	04/10/2024	Red – 6 months
Qatar National Bank	10.000	5.41	18/07/2024	18/10/2024	Red – 6 months
Money Market Fund - Black Rock	0.018	4.97	*	*	AAA
Money Market Fund - JP Morgan	0.001	4.87	*	*	AAA
Money Market Fund – Federated	14.987	5.03	*	*	AAA
Money Market Fund - Aberdeen Investments	18.416	5.01	*	*	AAA
Money Market Fund – BNP	0.010	4.96	*	*	AAA
Total	**53.432**				

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

Long Term Investment Portfolio as at 30 September 2024

Counterparty	Amount £m	Dividend Rec'd ** £m	Current Valuation £m	Notes
CCLA – Property Fund	20.000	0.251	16.644	Current valuation unrealised – no impact on revenue
Total	**20.000**	**0.251**	**16.644**	

** Dividends received quarterly (up to 30 June 2024 only reported here, as Q2 dividend received a month in arrears)

Link Group 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:

c) credit watches and credit outlooks from credit rating agencies;
c) 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:

i) Yellow – 5 years 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;
i) Dark pink – 5 years for Enhanced money market funds (EMMFs) with a credit score of 1.25
i) Light pink – 5 years for Enhanced money market funds (EMMFs) with a credit score of 1.5
i) Purple – 2 years;
i) Blue – 1 year (only applies to nationalised or semi nationalised UK Banks and their subsidiaries):
i) Orange – 1 year;
i) Red – 6 months;
i) 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 rating

Appendix 3

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 priorities.

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.

Growing Place Infrastructure Fund Loans

10. The Growing Places Infrastructure Fund (GPIF) was established by government as a programme in 2012, providing Local Enterprise Partnerships (LEPs) with funding to establish revolving investment funds.

11. In our area, GPIF loans have been issued by the Swindon and Wiltshire Local Economic Partnership (SWLEP). In June 2024, Wiltshire Council took on the functions and staff of the SWLEP, now the Swindon and Wiltshire Business Growth Unit (SWBGU), within the Economy and Regeneration department. This includes the operation of the GPIF revolving loan programme including the novation of loan agreements issued by SWLEP to Wiltshire Council. New loans may be issued by the council following the transfer of functions.

12. Wiltshire Council, as the accountable body for the SWBGU, holds the GPIF capital fund and interest payments in a ringfenced account on behalf of Swindon Borough Council and Wiltshire Council for investment which contributes to the sustainable economic growth of the area under the LEP transition governance arrangements

13. The GPIF loans provide funding to companies for capital projects that would otherwise not be deliverable, providing investments to companies in Swindon and Wiltshire to use towards capital elements of projects or to fund pre-revenue to companies.

14. These loans are issued and are expected to be repaid in full and may be offered with no security and as such are risker than other loans the council would otherwise issue.

15. The governance for these loans is managed through a GPIF working group, which seeks to advise on the day-to-day operation of the GPIF fund to ensure it is well managed with a view to supporting on the on-going economic growth of the area whilst safeguarding the integrity of the loan capital and its revenue generation capability

16. The decisions and business of the GPIF Working Group are subject to the overview and scrutiny of the Joint Management Partnership and Joint Oversight Partnership which sits between Swindon Borough Council and Wiltshire Council to manage these shared functions, and which reviews the programme's operation.

17. The S151 Officer may veto or pause the issue of a loan agreement if the due diligence work flags serious concerns or they believe that the governance processes have not been fully implemented by the GPIF Working Group. The S151 Officer will also have oversight of new GPIF loans to be awarded and the interest rate to be set, amendments to repayment schedules which may arise from-time-to time, and enforcement of the terms of the GPIF loan agreement terms to reclaim funds.

Loan Framework

18. All loans, with the exception of loans to Wiltshire Schools to enable Academy conversion and the GPIF loans described in the above paragraphs, must be secured against an asset or guaranteed by a public sector organisation with tax raising powers.

19. The maximum loan to value will not exceed 80% of the security.

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

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

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

23. 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.

24. Guarantees will be called upon if the lending organisation falls into arrears in line with the clauses set out in the signed loan agreements.

25. 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.

26. All loan proposals (including any loan re-scheduling) must be agreed with the Director of Finance and Procurement (S151 Officer) in conjunction with the Council's Treasury Management team.

Limits

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

28. Loans less than £0.250m will not be considered.

Subsidy Control and Interest Rates

29. 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.

30. 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.

31. 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.

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

Governance Arrangements

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

34. The Director of Finance and Procurement (S151 Officer) 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.

35. Growing Places Infrastructure Fund loans are given within the governance framework set out in paragraph 13.

36. 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.

37. 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

38. 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.

39. 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

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