Appendix A

Overview

The Council's treasury management activities are regulated by a variety of professional codes, statutes and guidance:

- The Local Government Act 2003 (the Act), which provides the powers to borrow and invest as well as providing controls and limits on these activities.

- Statutory Instrument (SI) 3146 2003, as amended, develops the controls and powers within the Act.

- The SI requires the Council to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities. A Revised edition of this code was published in late December 2017.

- The SI also requires the Council to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services. A Revised edition of this code was also published in late December 2017.

- Under the Act the Ministry for Housing, Communities and Local Government (MHCLG) has issued Investment Guidance to structure and regulate the Council's investment activities. This was updated in February 2018, effective from 1st April 2018.

Treasury Management Policy Statement

Introduction and Background

1.1 The Council adopts the key recommendations of CIPFA's Treasury Management in the Public Services: Code of Practice (the code), as described in Section 5 of the Code

1.2 Accordingly, the Council will create and maintain, as the cornerstones for effective treasury management: -

- A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities.

- Suitable treasury management practices (TMPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

1.3 The Council (i.e. Full Council Members) will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review, and an annual report after its close, in the form prescribed in its TMPs.

1.4 The Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Cabinet, and for the execution and administration of treasury management decisions to the Chief Finance Officer as Section 151 Officer, who will act in accordance with the organisation's policy statement and TMPs and, if he/she is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.

1.5 The Council nominates the Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

Policies and Objectives of Treasury Management Activities

2.1 The Council defines its treasury management activities as:

> *"The management of the organisation's 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."*

2.2 The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

2.3 The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.

2.4 The Council's borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source from which the borrowing is taken, and the type of borrowing should allow the Council transparency and control over its debt.

2.5 The Council's primary objective in relation to investments remains the security of capital. The liquidity or accessibility of the Council's investments followed by the yield earned on investments remain important but are secondary considerations.

Appendix B

Statistical Reporting Limitations

SCC no longer subscribes to the CIPFA Treasury Management Benchmarking Club. CIPFA Treasury Management Benchmarking Club produced detailed reports of Local Authority performance, and also compared with other authorities. Whilst these headline figures have been a useful guide in assessing performance in the past, it has become more important to assess performance against the stated objectives and specific needs of SCC during the year, and to take a wider view in relation to timeframes and overall risk management.

In view of the declining numbers that had been using the service, the increasing difficulty of straightforward comparison, and the cost of membership of the Benchmarking Club, it was decided not to participate from 2016-17 forward.

Many Authorities are using more esoteric means of 'investing' cash making it increasingly difficult to compare levels of risk tolerance, as well as returns. Some recent 'investments' by other Local Authorities include:

- Investments in Solar Farms
- Loans to local Football Club
- Buy and Leaseback of BP Corporate HQ
- 33% Stake in new start-up bank
- Direct property investment

The many factors that affect treasury performance that were not apparent from the CIPFA reports, and thereby made direct comparison increasingly difficult included: -

- The CIPFA reports look at one year in isolation. With the introduction of the Prudential Code in 2004, Authorities have been able to invest for longer periods. Performance of investments in particular, needs to be viewed over a longer timeframe to see the full impact of decisions. A further issue regarding timeframes is that LOBOs can be taken and reported with a reduced rate initially, but with a big increase after an initial period that is not apparent in the reporting period.

- Each authority will have different needs during any given year. For example, a large capital requirement in a year when borrowing rates are high can have an enormous adverse effect on the overall portfolio performance for years to come. Conversely, a high rate loan that drops out of a small portfolio can make performance look extremely impressive in a year when no activity was undertaken, or if new borrowing is being undertaken in the present low rate environment.

- Individual decisions are taken to suit a Council's particular circumstances, return aspirations, overall policy, and risk tolerances, and these will affect outcomes. The techniques and tools used to achieve objectives, and as part of risk management will also have an effect. For example, District Councils with housing stock receipts can invest in longer-dated Government and Supranational Bonds or place a greater percentage of investments with longer maturities.

- Investment returns compare rates achieved and give a general indication of length of deposits, but comparisons of the different levels of risk from counterparties and duration of loans is not available.

- The size of an Authority's cash balances will affect returns. An Authority with larger balances may be forced to use counterparties paying a lower rate to satisfy diversification needs and maintain minimum counterparty criteria.

- Use of Advisors. Authorities' lending lists will be heavily influenced by their Treasury advisors. Who each Authority's advisor is, and therefore their investment and counterparty advice, is not apparent from CIPFA reports.

Appendix C

The Economy and Events in 2019-20 including Market and PWLB Rates

The UK's exit from the European Union and future trading arrangements had remained one of the major influences on the UK economy and sentiment during 2019-20. The 29th March 2019 Brexit deadline was extended to 12th April, then to 31st October and finally to 31st January 2020. Politics played a major role in financial markets over the period as the UK's tenuous progress negotiating its exit from the European Union together with its future trading arrangements drove volatility, particularly in foreign exchange markets. The outcome of December's General Election removed a lot of the uncertainty and looked set to provide a 'bounce' to confidence and activity.

GDP growth in Q4 2019 was reported as flat by the Office for National Statistics. Service sector growth slowed, and production and construction activity contracted on the back of what at the time were concerns over the impact of global trade tensions on economic activity. The annual rate of GDP growth remained below-trend at 1.1%.

The headline rate of UK Consumer Price Inflation fell to 1.7% year-on-year in February, below the Bank of England's target of 2%. Labour market data remained positive. The ILO unemployment rate was 3.9% in the three months to January 2020 while the employment rate hit a record high of 76.5%. The average annual growth rate for pay excluding bonuses was 3.1% in January 2020 and the same when bonuses were included, providing some evidence that a shortage of labour had been supporting wages.

Then coronavirus swiftly changed everything. Covid-19, which had first appeared in China in December 2019, started spreading across the globe causing plummeting sentiment and falls in financial markets not seen since the Global Financial Crisis of 2008, as part of a flight to quality into sovereign debt and other perceived 'safe' assets.

In response to the spread of the virus and sharp increase in those infected, governments enforced lockdowns, central banks and governments around the world cut interest rates and introduced massive stimulus packages in an attempt to reduce some of the negative economic impact to domestic and global growth.

The Bank of England, which had held policy rates steady at 0.75% through most of 2019-20, moved on March 11th to cut rates to 0.25% from 0.75% and then on March 19th brought them down further to the record low of 0.1%. In conjunction with these cuts, the UK government introduced a number of measures to help businesses and households impacted by a series of ever-tightening social restrictions, culminating in pretty much the entire lockdown of the UK.

The US economy grew at an annualised rate of 2.1% in Q4 2019. After escalating trade wars and a protracted standoff, the signing of Phase 1 of the trade agreement between the US and China in January was initially positive for both economies, but Covid-19 severely impacted sentiment and production in both countries. Against a slowing economic outlook, the US Federal Reserve began cutting rates in August. Following a series of five cuts, the largest of which were in March 2020, the Fed Funds rate fell from of 2.5% to range of 0% - 0.25%. The US government also unleashed a raft of Covid-19 related measures and support for its economy including a $2 trillion fiscal stimulus package. With interest rates already on (or below) the floor, the European Central Bank held its base rate at 0% and deposit rate at -0.5%.

Financial markets: Financial markets sold off sharply as the impact from the coronavirus worsened. After starting positively in 2020, the FTSE 100 fell over 30% at its worst point with stock markets in other countries seeing similar huge falls. In March sterling touched its lowest level against the dollar since 1985. The measures implemented by central banks and governments helped restore some confidence and financial markets have rebounded in recent weeks but remain extremely volatile. The flight to quality caused gilts yields to fall substantially. The 5-year benchmark falling from 0.75% in April 2019 to 0.26% on 31st March. The 10-year benchmark yield fell from 1% to 0.4%, the 20-year benchmark yield from 1.47% to 0.76% over the same period.

Since the start of the calendar 2020, the yield on 2-year US treasuries had fallen from 1.573% to 0.20% and from 1.877% to 0.61% for 10-year treasuries. German bund yields remain negative. With Base Rate remaining at 0.75% for the majority of the year money markets rates for periods up to 3-months averaged similar to those for the previous year. However, due to the negative sentiment caused by Brexit, average rates for periods over 6-months reduced. For a few days in March overnight LIBID actually turned negative.

1-month, 3-month, 6-month, and 12-month LIBID (London Interbank Bid) rates averaged 0.56%, 0.63%, 0.70%, and 0.80% respectively over the period.

A summary of LIBID benchmark and PWLB rates is included below.

Money Market Rates 2019-2020 (LIBID Source = ICE LIBOR previously BBA LIBOR)

	O/N LIBID	7-Day LIBID	1-Month LIBID	3-Month LIBID	6-Month LIBID	12-Month LIBID	2-Yr SWAP
01/04/2019	0.55	0.57	0.60	0.72	0.83	0.93	0.97
30/04/2019	0.56	0.57	0.61	0.69	0.82	0.97	1.04
31/05/2019	0.56	0.58	0.60	0.67	0.75	0.87	0.87
30/06/2019	0.55	0.56	0.60	0.65	0.73	0.83	0.83
31/07/2019	0.54	0.56	0.59	0.65	0.69	0.73	0.66
31/08/2019	0.56	0.56	0.58	0.63	0.66	0.71	0.65
30/09/2019	0.54	0.57	0.59	0.63	0.70	0.76	0.65
31/10/2019	0.55	0.57	0.59	0.68	0.75	0.85	0.76
30/11/2019	0.55	0.56	0.58	0.67	0.73	0.82	0.78
31/12/2019	0.55	0.57	0.58	0.67	0.76	0.86	0.79
31/01/2020	0.55	0.56	0.58	0.64	0.69	0.75	0.66
29/02/2020	0.56	0.56	0.55	0.55	0.56	0.63	0.56
31/03/2020	-0.07	0.01	0.12	0.47	0.60	0.74	0.49
Average 2019-20	**0.52**	**0.53**	**0.56**	**0.63**	**0.70**	**0.80**	**0.83**
Minimum	-0.07	0.00	0.11	0.26	0.31	0.39	0.60
Maximum	0.56	0.58	0.61	0.72	0.83	0.98	1.06
Spread	0.63	0.58	0.50	0.46	0.52	0.59	0.46
Average 2018-19	**0.49**	**0.51**	**0.53**	**0.67**	**0.79**	**0.94**	**1.09**
Difference in average	**+0.03**	**+0.02**	**+0.03**	**-0.04**	**-0.09**	**-0.14**	**-0.26**

PWLB Rates 2019-20 (Maturity rates unless stated)

	1 Year	5 Year	5 Year EIP	10 Year	15 Year EIP	30 Year	50 Year
01/04/2019	1.66	1.72	1.65	2.04	1.88	2.58	2.44
30/04/2019	1.75	1.88	1.78	2.22	2.06	2.71	2.58
31/05/2019	1.62	1.61	1.57	1.90	1.74	2.48	2.36
30/06/2019	1.63	1.61	1.59	1.88	1.73	2.49	2.36
31/07/2019	1.46	1.40	1.40	1.70	1.53	2.41	2.32
31/08/2019	1.44	1.29	1.35	1.41	1.31	2.01	1.88
30/09/2019	1.48	1.27	1.34	1.47	1.33	2.01	1.87
31/10/2019	2.61	2.41	2.48	2.61	2.48	3.18	3.05
30/11/2019	2.61	2.46	2.51	2.65	2.52	3.21	3.08
31/12/2019	2.62	2.63	2.60	2.87	2.74	3.39	3.25
31/01/2020	2.56	2.40	2.45	2.53	2.43	3.04	2.91
29/02/2020	2.42	2.28	2.33	2.45	2.32	2.94	2.79
31/03/2020	2.1	2.15	2.12	2.34	2.22	2.80	2.58
Average 2019-20	**2.03**	**1.97**	**1.97**	**2.20**	**2.07**	**2.74**	**2.60**
Minimum	1.37	1.20	1.27	1.33	1.23	1.92	1.77
Maximum	2.67	2.65	2.62	2.96	2.82	3.41	3.25
Spread	1.30	1.45	1.35	1.63	1.59	1.49	1.48
Average 2018-19	**1.70**	**2.00**	**1.81**	**2.39**	**2.22**	**2.82**	**2.66**
Difference in average	**+0.33**	**-0.03**	**+0.16**	**-0.19**	**-0.15**	**-0.08**	**-0.06**

Appendix D

The Portfolio Position as at 31st March 2020 and a comparison with 2019 are set out below:

Table 1 – Debt Portfolio

	Balance on 31-03-2019 £m	Debt Matured / Repaid £m	New Borrowing £m	Balance on 31-03-2020 £m	Increase/ Decrease in Borrowing £m
Short Term Borrowing	0.00	0.00	0.00	0.00	0.00
PWLB	159.05	0.00	0.00	159.05	0.00
LOBOs	108.00	0.00	0.00	108.00	0.00
Fixed Rate Loans	57.50	0.00	0.00	57.50	0.00
Total Borrowing	**324.55**	**0.00**	**0.00**	**324.55**	**0.00**

Table 2 – Debt interest

	31-03-2019 Rate %	31-03-2020 Rate %	Increase/ Decrease Rate %
Short Term Borrowing	0.00	0.00	0.00
PWLB	4.59	4.59	0.00
LOBOs	4.74	4.74	0.00
Fixed Rate Loans	4.73	4.73	0.00
Total Borrowing	**4.66**	**4.66**	**0.00**

The Council's need to borrow for capital purposes is determined by the Capital Programme and Capital Strategy. Council Members were aware of the major projects identified for 2019 to 2022. Capital projects identified were to be funded using a combination of grant, capital receipts, and contributions. Although timing of capital expenditure is never totally predictable, it was envisaged that borrowing of up to £90m may have been necessary.

As the differential between investment earnings and debt costs remained negative during 2019-20, a passive borrowing strategy, borrowing funds as they were required was deemed to be most appropriate. With capital spending less than anticipated, no new borrowing was undertaken. The benefits of this strategy were monitored and weighed against the risk of shorter-term rates rising more quickly than expected.

During 2019-20, there were no scheduled debt maturities. The PWLB portfolio remained the same.

Table 3 – Investments as at 31st March 2020

	Balance as at 31-03-2019 £m	**Rate of Return at 31-3-2019 %**	**Balance as at 31-03-2020 £m**	**Rate of Return at 31-03-2020 %**
Short-Term Balances (Variable)	34.93	0.79	42.09	0.54
Comfund (Fixed)	150.00	1.03	127.00	0.90
CCLA Property Fund	10.00	4.35	15.00	4.63
Total Lending	**194.93**	**1.16**	**184.09**	**1.12**

Table 4 - Investment balances by type

	31 March 2019 £m	31 March 2020 £m	Change
Money Market Funds	34.93	27.09	-7.84
Notice Bank Accounts	25.00	75.00	+50.00
Time Deposits - Banks	77.00	25.00	-52.00
Time Deposits - LAs	48.00	42.00	-6.00
CCLA Property Fund	10.00	15.00	+5.00
Total Lending	**194.93**	**184.09**	**-10.84**

Table 5 - Breakdown of investment balances by source

	31 March 2019 £m	31 March 2020 £m	Change
ENPA / SWC	0.11	-0.04	-0.15
Organisations in the Comfund	7.48	7.40	-0.08
LEP – Growth Deal Grant	35.25	15.77	-19.48
Earmarked funds held on other decision-making bodies behalf	6.20	13.10	+6.90
Total Externals	**49.04**	**36.23**	**-12.81**
SCC	145.89	154.76	+8.87
Total	**194.93**	**184.09**	**-10.84**

Total lending as at 31st March 2020, including unspent LEP money, stood at over £184m, a decrease of nearly £11m from 2019.

The investments balance was inflated in late March as SCC received £20m in the last few days of March, £15.9m related to a Covid-19 grant from Central Government, with a further £4.7m of Business Rates paid in advance from 2020-21 revenues.

The Comfund investment of £127.0m was £24.15m lower, whilst revenue lending was £7.16m higher as Government sent £20m with only a few days of the year left, to help tackle the Covid-19 pandemic. In February a further £5m was invested in the CCLA (Churches, Charities, Local Authorities) Property Fund, bringing that investment to £15m.

Revenue balances held on behalf of others at year-end decreased from £0.11m to -£0.04m. Investment in the Comfund by external bodies decreased slightly, from £7.48m to £7.40m. A smaller grant and an increase in spending by the LEP meant a reduction of £19.5m of that money. £36.23m was managed on behalf of others at year-end 2020, a decrease of £12.81m.

The cash managed on behalf of others includes that of Exmoor National Park Authority (ENPA) and South West Councils (SWC). SCC continues to manage revenue balances on their behalf, and under contractual arrangements sweeps their cash into the SCC account daily, from where it is lent into the market in the name of SCC. There are arrangements in place for the allocation of interest received on these amalgamated balances, and SCC should not be at a disadvantage as rates paid to ENPA and SWC should always be less than those achieved by the investments.

The same principle holds for the Comfund external investors (a limited group of not-for-profit organisations with links to SCC) but here, the rate achieved is passed on to investors and an admin fee is charged.

In addition, during 2019-20, SCC was retained to manage the Local Enterprise Partnership (LEP) Growth Deal Grant on behalf of the other Enterprise Partners. A further grant of £13.6m was received on 30th April 2019 and added to the £35.25m already held. £15.77m was held on behalf of the LEP at year-end.

Appendix E

Temporary Borrowing

There were no temporary loans taken during 2019-20.

The nature of the deposit yield-curve throughout the year meant that the benefit of investing in shorter periods up to 2 or 3 months was marginal. The majority of revenue balances were therefore kept in Money Market Funds. These not only reduced counterparty risk while providing returns superior to short-term deposits, but also provided minimal liquidity risk through instant access.

The benefits of not needing to borrow meant a year of zero interest paid on temporary loans.

Another benefit is nil temporary borrowing brokerage fees.

Appendix F

Long-Term Borrowing

The rate at which the Council can borrow from its main source, the PWLB, is directly affected by Market movements in Gilts (PWLB rates are set with a direct correlation to Gilt yields). They are set twice daily and fluctuate according to market sentiment. Prior to October 9^{th} 2019 PWLB Rates were set at 100 basis points (1%) above the corresponding Gilt yield. On October 9^{th} 2019 with no prior warning, HM Treasury arbitrarily raised the rate by a further 100 basis points above the corresponding Gilt yield. Government said that it was restoring rates to levels seen the previous year, as they had been steadily falling over that period. It is also thought that it was imposed for a large part, to discourage Local Authorities that had been borrowing historically low PWLB loans to purchase income generating investments, predominantly commercial property.

UK Government Gilts are the main beneficiary when negative sentiment is felt (uncertainty caused by Brexit, uncertainty over US trade sanctions, and concerns over the economic effect of Coronavirus). Greater demand = higher price = lower yield = lower PWLB rates. The opposite holds true, i.e. positive sentiment or over supply translates into higher yields.

PWLB rates across all durations predictably ended the year higher than in March 2019 due to the HM Treasury imposition of an extra 1% on rates in October. However, rates had been steadily reducing since April, as Brexit negotiations became increasingly difficult. Rates continued to rise after the 1% was added, with in-year highs being reached in December 2019. After finally getting Brexit over the line and with the global onset of Coronavirus early in the year, rates fell once more as investors clamoured for the safe haven of Gilts. As a result of the above. 1-year, 5-year, 10-year and 50-year maturity rates averaged 2.03%, 1.97%, 2.20% and 2.60% respectively for 2019-20, and at 31st March 2019 were 2.10%, 2.15%, 2.34% and 2.58%.

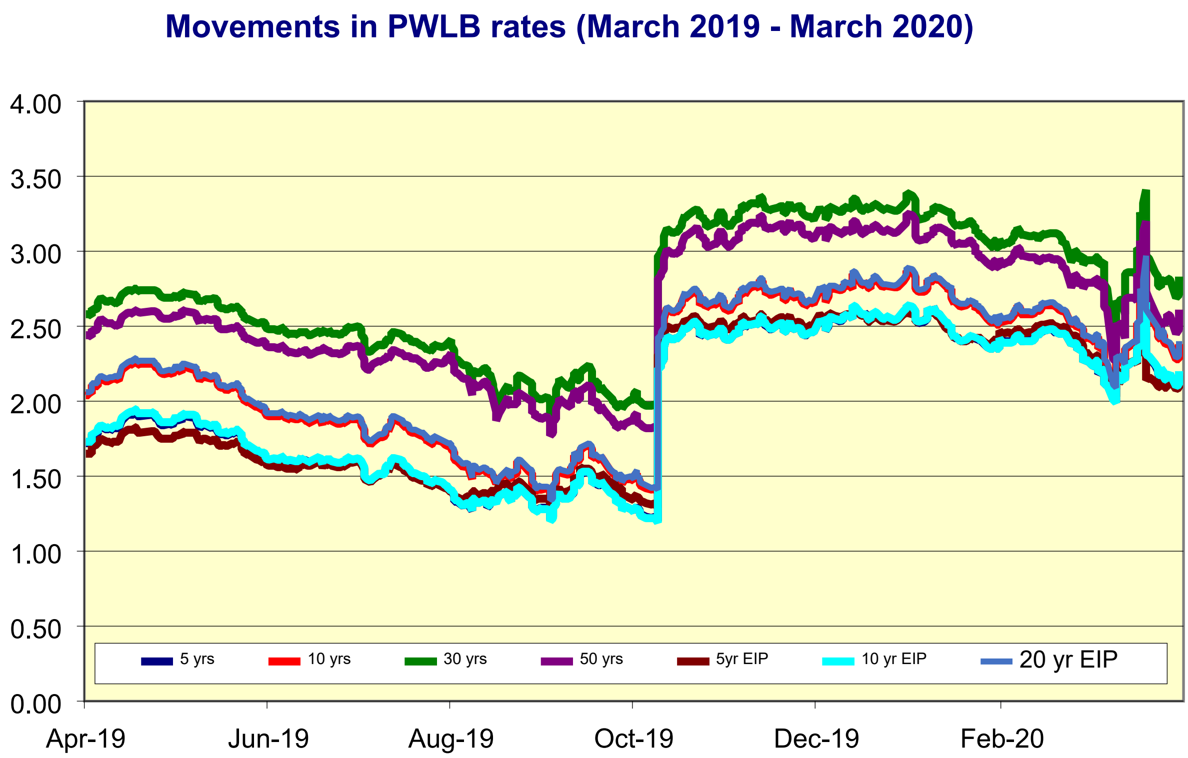
Spreads across all shorter maturities were particularly volatile, the five-year Maturity rate showing a maximum of 2.65% and a minimum of 1.20%, and the 10-year Maturity rate a maximum of 2.96% and a minimum of 1.33%, producing volatile spreads of 1.30% and 1.63% respectively during the year.

When yields decline, it becomes more expensive to repay debt prematurely. To give an example, to repay the entire PWLB portfolio in March 2014 would have incurred a premium of £33.5m (20% of principal). By March 2016 this had increased to £79m and further to £98.8m at March 2018. At March 31st 2020 a year-high premium of £136.6m would have been payable (86% of principal). Any decision to reschedule or repay debt would need to be taken in this dynamic environment, but as SCC is likely to be adding to its current debt in the near future, it is improbable rescheduling would happen.

The table and graph below summarise PWLB borrowing rates during the year.

PWLB Rates 2019-20 (Maturity rates unless stated)

	1 Year	5 Year	5 Year EIP	10 Year	15 Year EIP	30 Year	50 Year
01/04/2019	1.66	1.72	1.65	2.04	1.88	2.58	2.44
30/04/2019	1.75	1.88	1.78	2.22	2.06	2.71	2.58
31/05/2019	1.62	1.61	1.57	1.90	1.74	2.48	2.36
30/06/2019	1.63	1.61	1.59	1.88	1.73	2.49	2.36
31/07/2019	1.46	1.40	1.40	1.70	1.53	2.41	2.32
31/08/2019	1.44	1.29	1.35	1.41	1.31	2.01	1.88
30/09/2019	1.48	1.27	1.34	1.47	1.33	2.01	1.87
31/10/2019	2.61	2.41	2.48	2.61	2.48	3.18	3.05
30/11/2019	2.61	2.46	2.51	2.65	2.52	3.21	3.08
31/12/2019	2.62	2.63	2.60	2.87	2.74	3.39	3.25
31/01/2020	2.56	2.40	2.45	2.53	2.43	3.04	2.91
29/02/2020	2.42	2.28	2.33	2.45	2.32	2.94	2.79
31/03/2020	2.1	2.15	2.12	2.34	2.22	2.80	2.58
Average 2019-20	**2.03**	**1.97**	**1.97**	**2.20**	**2.07**	**2.74**	**2.60**
Minimum	1.37	1.20	1.27	1.33	1.23	1.92	1.77
Maximum	2.67	2.65	2.62	2.96	2.82	3.41	3.25
Spread	1.30	1.45	1.35	1.63	1.59	1.49	1.48
Average 2018-19	**1.70**	**2.00**	**1.81**	**2.39**	**2.22**	**2.82**	**2.66**
Difference in average	**+0.33**	**-0.03**	**+0.16**	**-0.19**	**-0.15**	**-0.08**	**-0.06**



During 2019-20, there were no scheduled debt maturities, and due to the elevated premiums, rescheduling of existing debt was not cost effective.

The year-end average rate of the PWLB portfolio remained at 4.59%.

The Council has £113m of loans that are LOBO loans (Lender's Option Borrower's Option) of which all were in their option state during 2019-20. None of the lenders exercised their option to request an increase in the rate applied. As stated in the 2019-20 Treasury Management Strategy Statement, it is SCC policy not to accept any option to pay a higher rate of interest on LOBO loans and would invoke its own option to repay the loan.

Note that the £57.5m of loans with Barclays are now effectively long-term fixed loans after they contractually ceded the right to their options.

The year-end average rate of the LOBO/Market Loan portfolio for SCC for the year was 4.74%.

With no debt activity during the year, the weighted average term for SCC market loans at 31st March was 32.0 years, whilst the PWLB loans average was 24.2 years.

Appendix G

Lending

The Guidance on Local Government Investments in England gives priority to security and liquidity and the Council's aim is to achieve a yield commensurate with these principles.

Security: Security of capital remained the Council's main investment objective. This was maintained by following the counterparty policy as set out in the Annual Investment Strategy, and by the approval method set out in the Treasury Management Practices. Current approved counterparties are listed below. Those used during the year are denoted with a star.

Bank or Building Society		**Bank or Building Society**	
Australia & NZ Bank	*	Standard Chartered Bank	*
Bank of Scotland		Handelsbanken Plc	*
Bank of Montreal		Toronto-Dominion Bank	*
Bank of Nova Scotia		United Overseas Bank	*
Barclays Bank Plc			
Canadian Imperial Bank of Commerce			
Close Brothers Ltd	*	**Sterling CNAV Money Market Funds**	
Commonwealth Bank of Australia		Goldman Sachs MMF	
DBS Bank Ltd	*	Deutsche MMF	
DZ Bank	*	Invesco Aim MMF	*
Goldman Sachs International Bank	*	Federated Prime MMF	*
HSBC Bank	*	JP Morgan MMF	
Landesbank Hessen-Thuringen		Insight MMF	*
Lloyds Bank	*	Aberdeen Standard MMF	*
National Australia Bank		LGIM MMF	*
National Westminster	*	SSGA MMF	*
Nationwide BS			
Nordea Bank			
OP Corporate Bank			
Oversea-Chinese Banking Corporation		**Other Counterparties**	
Rabobank	*	Other Local Authorities	* (16)
Royal Bank of Scotland		Debt Management Office	
Santander UK	*	CCLA Property Fund	*

SCC has continuously monitored counterparties, and all ratings of proposed counterparties have been subject to verification on the day, immediately prior to investment. Other indicators considered have been:

- Credit Default Swaps and Government Bond Spreads.
- GDP and Net Debt as a Percentage of GDP for sovereign countries.
- Likelihood and strength of Parental Support.
- Banking resolution mechanisms for the restructure of failing financial institutions i.e. bail-in.
- Share Price.
- Market information on corporate developments and market sentiment towards the counterparties and sovereigns.

In Quarter 4 2019 Fitch affirmed the UK's AA sovereign rating, removed it from Rating Watch Negative (RWN) and assigned a negative outlook. Fitch then affirmed UK banks' long-term ratings, removed the RWN and assigned a stable outlook. Standard & Poor's also affirmed the UK sovereign AA rating and revised the outlook to stable from negative.

The Bank of England announced its latest stress tests results for the main seven UK banking groups. All seven passed on both a common equity Tier 1 (CET1) ratio and a leverage ratio basis. Under the test scenario the banks' aggregate level of CET1 capital would remain twice their level before the 2008 financial crisis.

Fitch downgraded the UK sovereign rating to AA- in March 2020 which was followed by a number of actions on UK and Non-UK banks. This included revising the outlook on all banks on the counterparty list to negative, with the exception of Barclays Bank, Rabobank, Handelsbanken and Nordea Bank which were placed on Rating Watch Negative. Close Brothers long-term rating was cut to A-. HSBC Bank and HSBC UK Bank, however, had their long-term ratings increased by Fitch to AA-.

Having revised their outlooks to negative, Fitch upgraded the long-term ratings on Canadian and German banks but downgraded the long-term ratings for Australian banks.

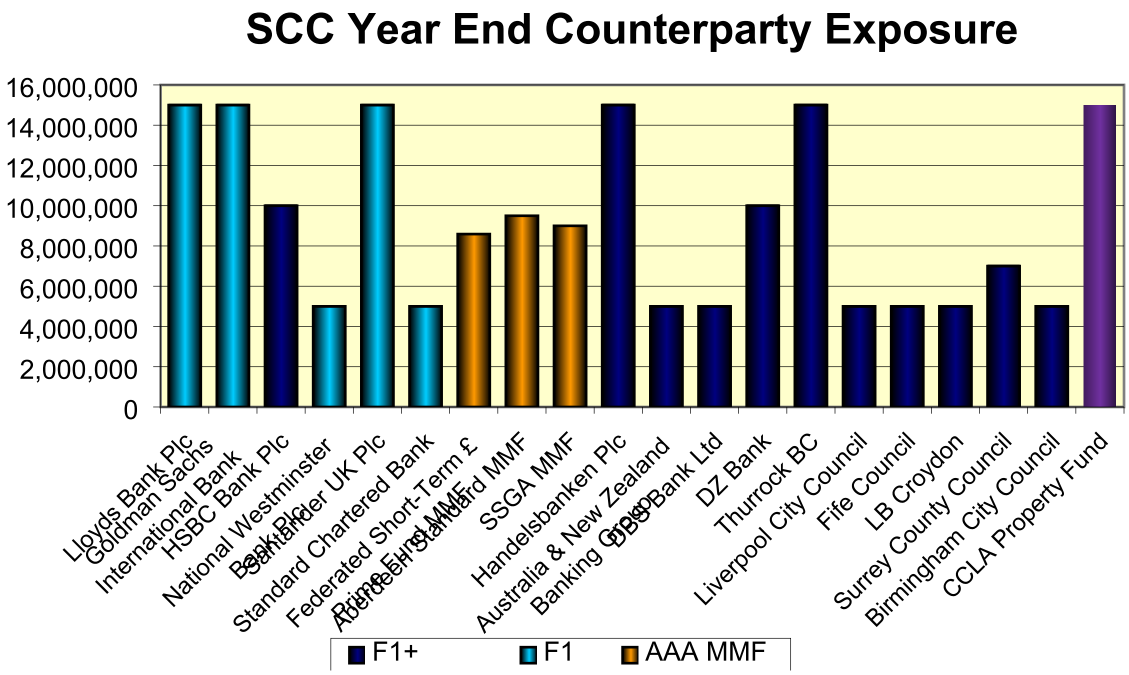
After remaining flat in January and February and between a range of 30-55bps, Credit Default Swap spreads rose sharply in March as the potential impact of the coronavirus on bank balance sheets gave cause for concern. Spreads declined in late March and through to mid-April but remain above their initial 2020 levels.

While the UK and Non-UK banks on the Arlingclose counterparty list remain in a strong and well-capitalised position, the duration advice on all these banks was cut to 35 days for new deposits in mid-March. SCC had £10m held in a 175-day account, and £45m held in 95-day notice accounts with UK domiciled Banks. Notice has been given on the £10m 175-day deposit and £15m of the 95-day notice accounts, whilst residual balances will be keenly monitored and drawn down as cash flow requires.

Another means of assessing inherent risk in an investment portfolio is to monitor the duration, the average weighted time to maturity of the portfolio. As the revenue element of lending is generally instant access or short-term lending, it is more appropriate to monitor the Comfund element of lending. The Comfund portfolio started the year with a duration of 146 days. This had reduced to 132 days by September as Arlingclose advice limited all banks to a maximum 6-month duration. Some 95-day Notice accounts were paying more than many longer deposits at this point and SCC took advantage of this anomaly. The average duration at the year-end was 113 days, with the average for the year being 4.33 months.

In order to increase diversification of the portfolio and to increase duration where possible, more deposits were placed with UK Local Authorities. Sixteen loans were with Local Authorities during the year. This allowed for longer-dated maturities with excellent creditworthiness and an appropriate yield.

The chart below shows the names of approved counterparties with deposit exposures as at 31st March 2020.



Liquidity: In keeping with the CLG guidance, the Council maintained enough liquidity through the use of call accounts, money market funds (MMFs), and short-term deposits. Some call accounts and MMFs offered yields in excess of those on offer for time deposits up to 3-months, which meant that it was beneficial to use these facilities. This was beneficial not just for liquidity and yield, but in mitigating counterparty and interest rate risk. During the year, identified core balances and reserves have been lent for longer periods when deemed appropriate, via the Comfund. The Comfund aim is to create a portfolio of deposits with a rolling maturity providing sufficient liquidity, whilst enabling advantage to be taken of the extra yield offered in longer periods.

CCLA Property Fund: In February 2020 SCC added a further £5m to the existing £10m investment in the CCLA Property Fund. This Fund has been in existence for more than 25 years and is only available to Local Authorities. It is an actively managed, diversified portfolio of UK Commercial Property with a stated investment objective "to provide investors with a high level of income and long-term capital appreciation".

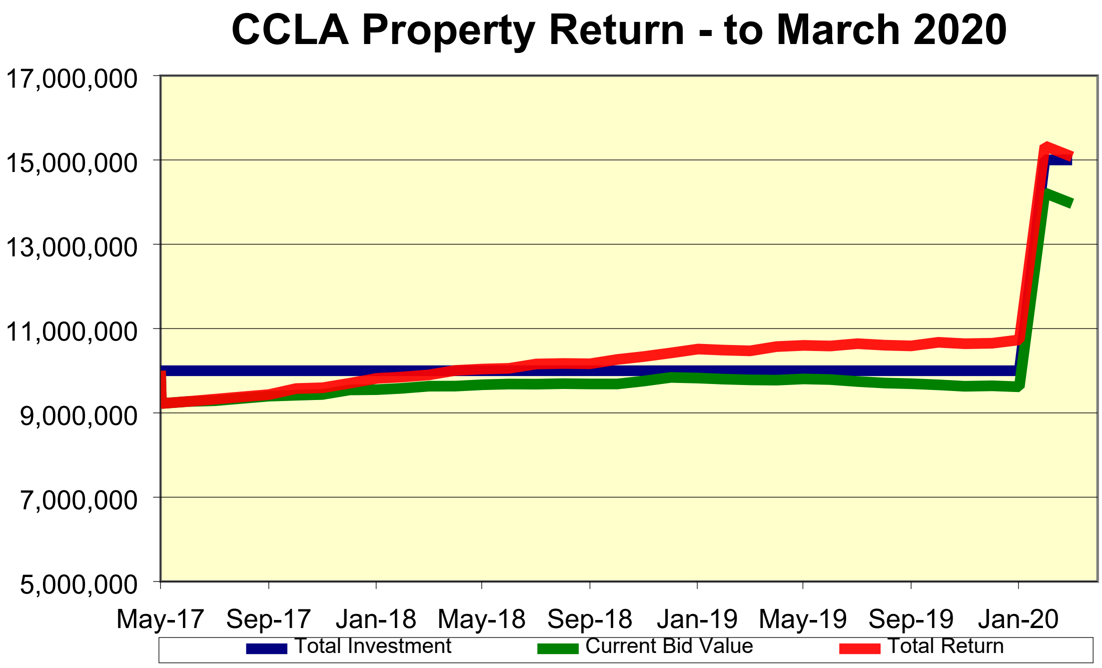
The decision to invest in the CCLA Property Fund is driven by 2 key factors. Firstly, by diversifying away from unsecured Bank deposits, it would help to mitigate the increased risk posed by unsecured bank bail-in, and secondly, to mitigate the risk of negative returns (real negative returns, or inflation adjusted returns) posed by the low interest rate environment.

A full risk assessment was undertaken and identified the main risks as depreciation in market value and loss of liquidity. These are both mitigated by treating the investment as a longer-term hold. By identifying a suitable level of longer-term investment with reference to core balances and reserves, liquidity will not be compromised, and potential dips in market value can be patiently sat out.

Whilst planning for the downside, there is also the upside of expected capital appreciation in the longer-term.

As at 31st March 2020 the Net Asset Value of the SCC holding was £14,181,844.98 and a Bid Price (value at which investment could be sold) of £13,961,737.22. The current reduced value is in a large part caused the bid/offer spread of the additional investment in February. Investment value is immediately decreased by about 8% on purchase of units in the Fund. However, the value of the fund has also steadily decreased since July 2019. This is why it is seen as a long-term investment. In the meantime, the average Property Fund yield of circa 4.23% net, was circa 3.28% above average cash yields, and provided approximately £340,000 of extra income during the year.

A graph of returns is shown below.



Yield: The Council sought to optimise returns commensurate with its objectives of security and liquidity. Economic data did not give much reason for either a base rate rise or a cut for much of the year, markets instead being influenced by the ongoing Brexit situation, and particularly the political fallout surrounding Brexit. As a result, market rates were treading water for most of the year. As the Covid-19 virus took hold in March, the economic consequences came in to focus, base rate was reduced to a record low and market rates plummeted. 1-month, 3-month, 6-month and 12-month LIBID rates averaged 0.56%, 0.63%, 0.70% and 0.80% respectively for 2019-20, but at 31st March 2019 were 0.12%, 0.47%, 0.60% and 0.74%. Given the lack of direction during the year, and the year-end freefall, the 2019-20 average rates for 3-month, 6-month and 12-month LIBID were 0.04%, 0.09%, and 0.14% basis points below those for 2018-19. A table of rates is shown below.

Money Market Rates 2019-20 (LIBID Source = ICE LIBOR previously BBA LIBOR)

	O/N LIBID	7-Day LIBID	1-Month LIBID	3-Month LIBID	6-Month LIBID	12-Month LIBID	2-Yr SWAP
01/04/2019	0.55	0.57	0.60	0.72	0.83	0.93	0.97
30/04/2019	0.56	0.57	0.61	0.69	0.82	0.97	1.04
31/05/2019	0.56	0.58	0.60	0.67	0.75	0.87	0.87
30/06/2019	0.55	0.56	0.60	0.65	0.73	0.83	0.83
31/07/2019	0.54	0.56	0.59	0.65	0.69	0.73	0.66
31/08/2019	0.56	0.56	0.58	0.63	0.66	0.71	0.65
30/09/2019	0.54	0.57	0.59	0.63	0.70	0.76	0.65
31/10/2019	0.55	0.57	0.59	0.68	0.75	0.85	0.76
30/11/2019	0.55	0.56	0.58	0.67	0.73	0.82	0.78
31/12/2019	0.55	0.57	0.58	0.67	0.76	0.86	0.79
31/01/2020	0.55	0.56	0.58	0.64	0.69	0.75	0.66
29/02/2020	0.56	0.56	0.55	0.55	0.56	0.63	0.56
31/03/2020	-0.07	0.01	0.12	0.47	0.60	0.74	0.49
Average 2019-20	**0.52**	**0.53**	**0.56**	**0.63**	**0.70**	**0.80**	**0.83**
Minimum	-0.07	0.00	0.11	0.26	0.31	0.39	0.60
Maximum	0.56	0.58	0.61	0.72	0.83	0.98	1.06
Spread	0.63	0.58	0.50	0.46	0.52	0.59	0.46
Average 2018-19	**0.49**	**0.51**	**0.53**	**0.67**	**0.79**	**0.94**	**1.09**
Difference in average	**+0.03**	**+0.02**	**+0.03**	**-0.04**	**-0.09**	**-0.14**	**-0.26**

Comfund

Comfund investment decreased to £127m at year-end 2020, by £24.15m from the £151.15m at year-end 2019.

The total of other investors' balances also decreased slightly by £0.08m.

The average balance of the Comfund throughout 2019-20 was £165.5, a £1.5m decrease on the previous years' average.

The Comfund vehicle, with an annual return of 1.00% outperformed the benchmark for base rate of 0.72% for the year, by 0.28%.

A total of approximately £1.65m was earned in interest in the year, an increase of £210,000 on the figure for 2018-19 of £1.44m, despite slightly reduced balances and reductions in investment duration for many counterparties.

Revenue

Revenue balances averaged £37.98m during the year, with an average yield of 0.72%. This compares favourably to a normal money market fund benchmark of 7-day LIBID (London Interbank Bid Rate, an average of bid rates that banks are willing to lend to each other), the average for which was 0.53%. This income stream earned interest of over £272,000.

Property Fund

A further investment of £5m was made to the existing £10m in the CCLA Property Fund on 29th February 2020. For the year to 31st March 2020 it delivered an average net income yield of 4.23%, and £442,130 cash.

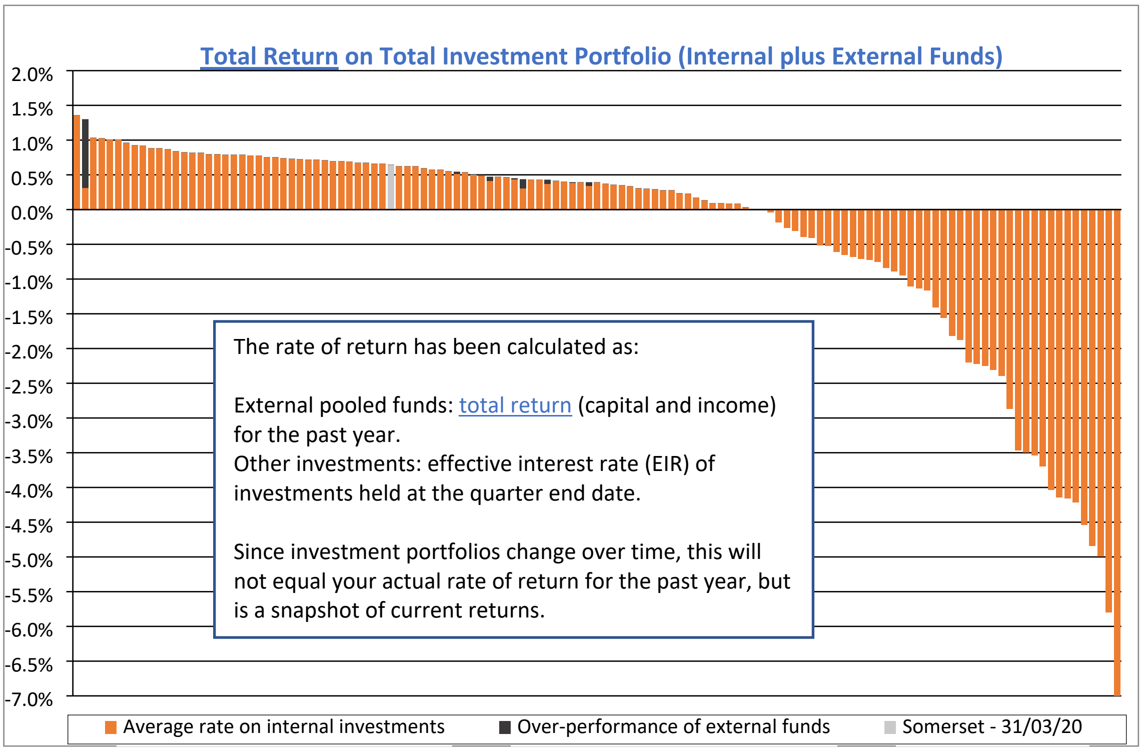
Combined

The combined average daily balance of the Council's investments during 2019-20 was £214m against £214.4m for 2018-19. The overall weighted investment return of combined investments was 1.11% against a return of 0.99% for 2018-19. Excluding the Property Fund, cash returns were 0.95% compared to 0.83% for 2018-19.

2019-20 was the tenth complete year that SCC had the services of retained Treasury advisors, Arlingclose. It would therefore seem appropriate to look at SCC performance compared with other Authorities that use Arlingclose, i.e. that share much of the same investment advice, particularly regarding counterparties. However, many of the caveats mentioned in appendix B may apply. With this in mind, figures for internally managed investments only, have been used. The Arlingclose report compares quarter-end figures only, and comparisons can be seen below.

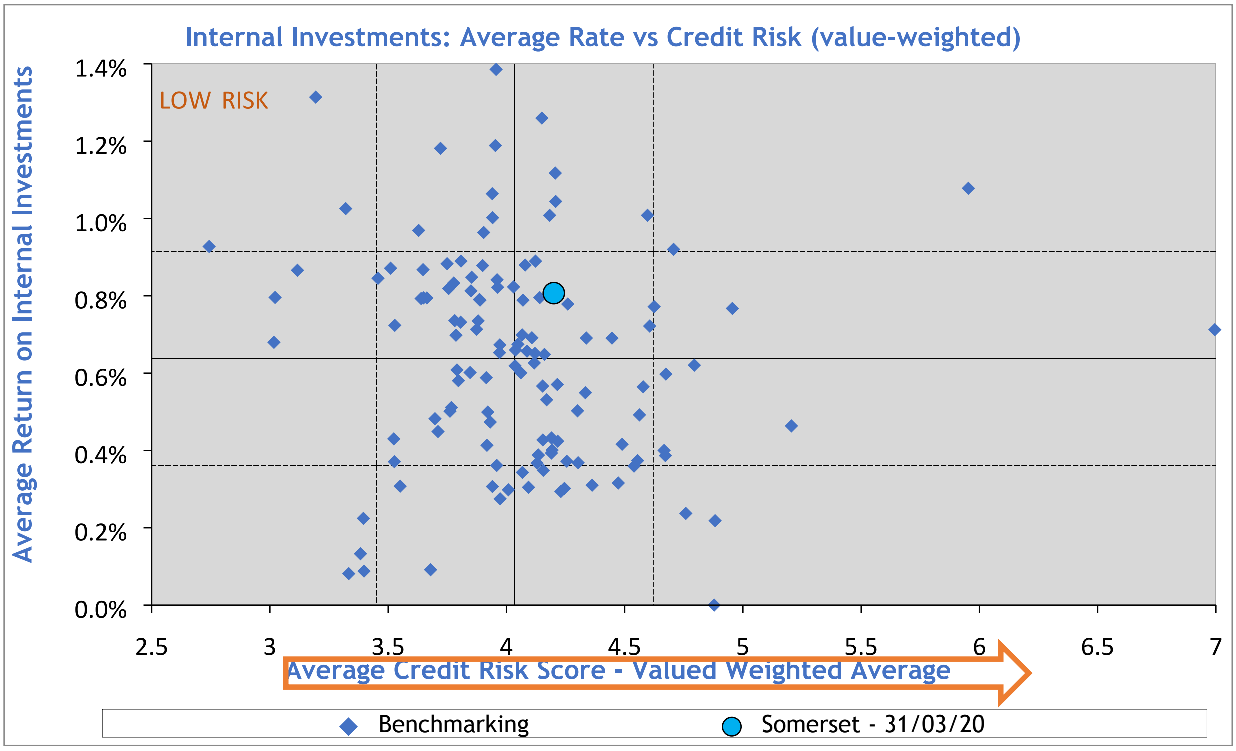
	Rate		Balance (£m)	
	SCC	Others	SCC	Others
June 2019	0.98%	0.84%	185	51
September 2019	0.99%	0.83%	222	64
December 2019	0.95%	0.81%	224	65
March 2019	0.81%	0.64%	169	62
Average	**0.93%**	**0.78%**	**200**	**60**

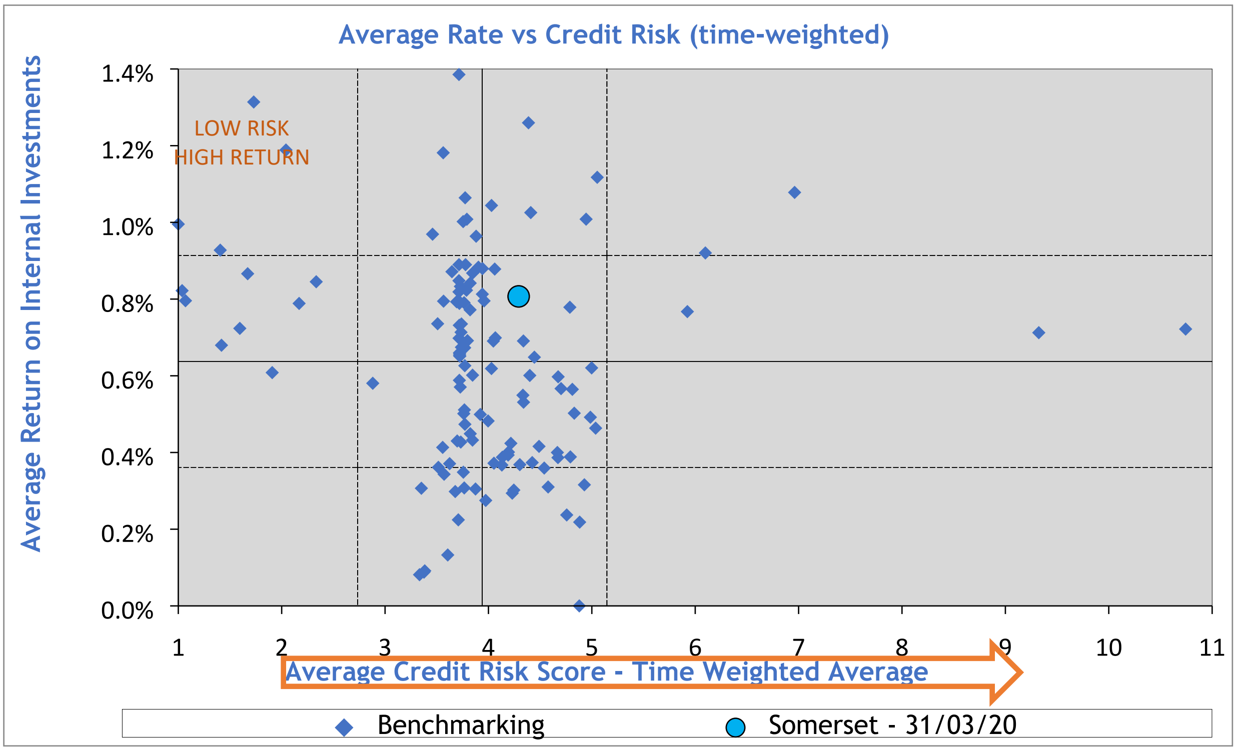
Using this methodology, SCC performance has been above that of comparators. This has been achieved with an average investment balance of more than 3 times that of the average for the universe. Returns as at 31st March 2020, including esoteric investments can be seen in the graph below (If in black & white, SCC is the bar below the first 'T' in the second 'Total' in the graph title.



From a risk perspective, both SCC and Other Authorities' average credit rating score was AA- throughout the year. To give this some perspective, the United Kingdom Government is rated one notch above at AA, although Fitch Ratings did drop their rating of the UK Government to AA- on 27th March 2020. When comparing the year-end average days to maturity the SCC average is 74 days, all others just 20, and 644 days for other County Councils. The SCC average is more than **1.5 years** below that of other County Councils. This in part reflects the fact that SCC has been holding approximately £40m of LEP money on behalf of its partners, so has needed to retain more liquidity, and that a much more cautious approach is taken with regard to interest rate risk, and perhaps more esoteric investments. The performance relative to risk can be seen in the two graphs below.

It can be seen in both graphs that SCC performance is above the average rate of return whilst being slightly above the average credit risk score.





Security and liquidity have been achieved while returning an overall rate in excess of average cash rates for all periods up to 1 year (see table above), on a portfolio with an average duration of less than 5 months (Excluding Property Fund). Performance was ahead of other Arlingclose advised Authorities' internally managed investments.

The overall return has produced a total income of £2.37m, up by £250,000 from 2018-19 on similar average balances and similar average rates. If balances had been invested in the relatively risk-free Government Debt Management Account Deposit Facility (DMADF) run by the Debt Management Office (DMO), the return would have averaged approximately 0.50%, or £1,048k, a reduction in income of £1.32m.

All treasury management activities have mitigated risk to SCC to permit the achievement of objectives and including a fee for the management of the LEP money, have brought in income and benefits of approximately £132k.

Icelandic Investments Update

Landsbanki & Glitnir – As reported in the end of 2018-19 Treasury Management Outturn Report, SCC has concluded any interest that it had with these two banks.

Kaupthing, Singer & Friedlander – The estimated range for total dividends remains as in the Administrator's October 2018 report, when it was raised to 86.5p-87p in the pound.

Two further dividends have been received during 2019-20, £41,259.73 on 13th June 2019 and £36,102.26 on 19th December 2019 (A further £17,535.38 was received on 1st April 2020). Future dividends will be paid subject to consultation with the Creditors' Committee, and when the level of distributable funds makes it cost effective to do so.

In total, as at 31st March 2020 £23,318,668.62 had been recovered. The shortfall of £1.68m from the original investment was written off back in 2008-09.

Appendix H

Prudential Indicators

Prudential Indicators are agreed and set by Council prior to each financial year. The key objectives are to ensure, within a clear framework, that the Capital Investment plans of the Council are affordable, prudent, and sustainable.

The indicators are regularly monitored, with actuals reported to the Director of Finance monthly.

The Council can confirm that it has complied with its Prudential Indicators for 2019-20. Those indicators agreed by Full Council and actual figures as at 31st March are included below:

Borrowing	**Limit for 2019-20**	**As at 31-03-20**
Authorised Limit	**487**	**332**
Operational Boundary	**457**	**332**

Maturity Structure of Borrowing	**Upper**	**Lower**	**Actual**
Under 12 months	50%	15%	34.8%
>12 months and within 24 months	25%	0%	0.0%
>24 months and within 5 years	25%	0%	3.0%
>5 years and within 10 years	20%	5%	7.8%
>10 years and within 20 years	20%	5%	10.8%
>20 years and within 30 years	20%	0%	0.0%
>30 years and within 40 years	45%	15%	43.6%
>40 years and within 50 years	15%	0%	0.0%
>50 years and above	5%	0%	0.0%

Limit for Principal sums invested > 365 days £100m **Actual** £20m

Credit Risk Indicator

The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating / credit score of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk (in conjunction with Arlingclose) and will be calculated quarterly.

Credit risk indicator (to be below target)	**Target**	**Actual**
Portfolio average credit rating (score)	A (6)	AA- (4.29)

Appendix I

Non-Financial Assets, Regulatory Changes, Risk Management & Governance

Some Local Authorities have continued to invest in non-financial assets, with the primary aim of generating profit. Others have entered into very long-term investments or providing loans to local enterprises or third sector entities as part of regeneration or economic growth projects. Some recent 'non-financial investments' by other Local Authorities are highlighted in Appendix B.

The National Audit Office and the Public Accounts Committee continue to voice concerns about Local Authority (investment) behaviour. These are:

- Local Authorities are exposing themselves to too much financial risk through borrowing and investment decisions
- There is not enough transparency to understand the exposure that LA's have as a result of borrowing and investment decisions
- Members do not always have sufficient expertise to understand the complex transactions that they have ultimate responsibility for approving

The Public Accounts Committee have launched a public enquiry into Local Authority Investments in Commercial Property, with initial questions being posed to MHCLG (Ministry of Housing, Communities and Local Government) officials on 11th May 2020.

Also, during the Budget in March 2020, the Treasury launched a consultation on changes to the Public Works Loan Board, which it said would attempt to "focus PWLB loans on service delivery, housing, and regeneration, and ensure that this money is not diverted into financial investments that serve no direct policy purpose".

As a result of esoteric investments, and the subsequent review, Statutory Guidance on Local Government Investments was revised, effective 1st April 2018. The CIPFA Treasury Management and Prudential Codes were also reviewed and updated.

As SCC is currently looking into the feasibility of alternative investments it is appropriate to highlight the main thrust of changes introduced.

Revised CIPFA Codes

CIPFA published revised editions of the Treasury Management and Prudential Codes in December 2017. The required changes from the 2011 Code are fully incorporated into the 2019-20 Treasury Management Strategy, and the new separate Investment Strategy.

The revised Prudential Code introduces the requirement for a Capital Strategy which provides a high-level overview of the long-term context of capital expenditure and investment decisions and their associated risks and rewards, along with an overview of how risk is managed for future financial sustainability. This new high-level paper was initiated for 2019-20 and approved by Full Council at the February 2019 meeting.

In the revised Treasury Management Code, the definition of 'investments' was widened to include non-financial assets held primarily for financial returns such as investment property, as well as financial assets. These, along with other investments made for non-treasury management purposes such as loans supporting service outcomes and investments in subsidiaries, must be discussed in the Capital Strategy or Investment Strategy. Additional risks of such investments are to be set out clearly and the impact on financial sustainability is be identified and reported. SCC produced an Investment Strategy separate to that of the Treasury Strategy for 2019-20, which was also approved by Full Council in February. This paper set out detailed processes, policies and procedures which would need to be adopted if alternative investments were to be undertaken.

MHCLG Investment Guidance and Minimum Revenue Provision (MRP)

In February 2018 the MHCLG (Ministry of Housing, Communities and Local Government) published revised Guidance on Local Government Investments and Statutory Guidance on Minimum Revenue Provision (MRP). Changes to the Investment Guidance included a wider definition of investments to include non-financial assets held primarily for generating income return and a new category called "loans" (e.g. temporary transfer of cash to a third party, joint venture, subsidiary or associate). The Guidance introduced the concept of proportionality, proposed additional disclosure for borrowing solely to invest and also specifies additional indicators. Investment strategies must detail the extent to which service delivery objectives are reliant on investment income and a contingency plan should yields on investments fall.

The definition of prudent MRP has been changed to "put aside revenue over time to cover the CFR"; it cannot be a negative charge and can only be zero if the CFR is nil or negative. Guidance on asset lives has been updated, applying to any calculation using asset lives. Any change in MRP policy cannot create an overpayment; the new policy must be applied to the outstanding CFR going forward only.

MiFID II

As a result of the second Markets in Financial Instruments Directive (MiFID II), from 3rd January 2018 local authorities were automatically treated as retail clients but could "opt up" to professional client status, providing certain criteria was met. This included having an investment balance of at least £10 million and the person(s) authorised to make investment decisions on behalf of the authority have at least a year's relevant professional experience. In addition, the regulated financial services firms to whom this directive applies have had to assess that that person(s) have the expertise, experience and knowledge to make investment decisions and understand the risks involved.

The Council continues to meet the conditions to opt up to professional status and has done so in order to maintain its erstwhile MiFID II status prior to January 2018. As a result, the Council will continue to have access to products including money market funds, pooled funds, treasury bills, bonds, shares and to financial advice.

Risk Management, Governance, and Compliance

During the year, all Council treasury management policies, practices, and activities remained compliant with all relevant statutes and guidance, namely the CLG investment guidance issued under the Local Government Act 2003, the CIPFA Code of Practice for Treasury Management, and the CIPFA Prudential Code.

The CLG's Guidance on Investments reiterates security and liquidity as the primary objectives of a prudent investment policy. All lending was compliant with guidance issued by the CLG, with the investment strategy agreed, and activities conducted within the procedures contained in the TMPs.

As required by the CIPFA TM Code, a mid-year review was presented to Full Council in November 2019.

Officers from the Treasury Management team reported debt and investment positions and performance via comprehensive reports at monthly meetings with the Director of Finance and/or the Strategic Manager (Pensions Management).

All recent audits conducted by the South West Audit Partnership (SWAP) have received a ‘Comprehensive’ Audit Opinion, the highest rating for its management of risk.

An Internal Audit was conducted by SWAP during summer 2019, reporting on 25th September 2019. It awarded the best possible outcome, as quoted below.

> “We can offer substantial assurance as the areas reviewed were found to be adequately controlled. Internal controls are always in place and operating effectively, and risks against the achievement of objectives are well managed.”.

Arlingclose have been retained Treasury Advisors throughout the period.

During the year Treasury staff have continued to attend courses and seminars provided through the CIPFA Treasury Management Network (TMN), its advisors, Arlingclose, and other ad hoc events.