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 they are 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
- Setting up own energy company
- 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.

- Conversely, an Authority with larger balances may be able to invest a greater proportion of funds in the longer-term, thereby generating better returns.

- 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 2020-21 including Market and PWLB Rates

The coronavirus pandemic dominated 2020-21, leading to almost the entire world being in some form of lockdown during the year. The start of the financial year saw many central banks cutting interest rates as lockdowns caused economic activity to grind to a halt.

Some good news came in December 2020 as two COVID-19 vaccines were given approval by the UK Medicines and Healthcare products Regulatory Agency (MHRA). The UK vaccine rollout started in earnest; over 31 million people had received their first dose by 31st March.

A Brexit trade deal was agreed with only days to spare before the 11pm 31st December 2020 deadline having been agreed with the European Union on Christmas Eve.

The Bank of England (BoE) held Bank Rate at 0.1% throughout the year but extended its Quantitative Easing programme by £150 billion to £895 billion at its November 2020 meeting. In its March 2021 interest rate announcement, the BoE noted that while GDP would remain low in the near-term due to COVID-19 lockdown restrictions, the easing of these measures means growth is expected to recover strongly later in the year. Inflation is forecast to increase in the near-term and while the economic outlook has improved there are downside risks to the forecast, including from unemployment which is still predicted to rise when the furlough scheme is eventually withdrawn.

Government initiatives supported the economy and the Chancellor announced in the 2021 Budget a further extension to the furlough scheme until September 2021. Access to support grants was also widened, enabling more self-employed people to be eligible for government help. Since March 2020, the government schemes have help protect more than 11 million jobs.

Despite the furlough scheme, unemployment still rose. Labour market data showed that in the three months to February 2021 the unemployment rate was 4.9%, in contrast to 3.9% recorded for the same period 12 months ago. Wages rose 4.8% for total pay in nominal terms (4.2% for regular pay) and was up 3.9% in real terms (3.4% for regular pay).

Inflation has remained low over the 12-month period. Latest figures showed the annual headline rate of UK Consumer Price Inflation (CPI) at 0.7% year on year in March, below expectations (0.8%) and still well below the Bank of England's 2% target.

After contracting sharply in Q2 (Apr-Jun) 2020 by 19.8% q/q, growth in Q3 and Q4 bounced back by 15.5% and 1.3% respectively. The easing of some lockdown measures in the last quarter of the calendar year enabled construction output to continue, albeit at a much slower pace than the 41.7% rise in the prior quarter. When released, figures for Q1 (Jan-Mar) 2021 are expected to show a decline given the national lockdown.

After collapsing at an annualised rate of 31.4% in Q2, the US economy rebounded by 33.4% in Q3 and then a further 4.1% in Q4. The US recovery has been fuelled by three major pandemic relief stimulus packages totalling over $5 trillion. The Federal Reserve cut its main interest rate to between 0% and 0.25% in March 2020 in response to the pandemic and it has remained at the same level since. Joe Biden became the 46th US president after defeating Donald Trump.

The European Central Bank maintained its base rate at 0% and deposit rate at -0.5% but in December 2020 increased the size of its asset purchase scheme to €1.85 trillion and extended it until March 2022.

Financial markets: Monetary and fiscal stimulus helped provide support for equity markets which rose over the period, with the Dow Jones beating its pre-crisis peak on the back of outperformance by a small number of technology stocks. The FTSE indices performed reasonably well during the period April to November, before being buoyed in December by both the vaccine approval and Brexit deal, which helped give a boost to both the more internationally focused FTSE 100 and the more UK-focused FTSE 250, however they remain lower than their pre-pandemic levels.

Ultra-low interest rates prevailed throughout most of the period, with yields generally falling between April and December 2020. From early in 2021 the improved economic outlook due to the new various stimulus packages (particularly in the US), together with the approval and successful rollout of vaccines, caused government bonds to sell off sharply on the back of expected higher inflation and increased uncertainty, pushing yields higher more quickly than had been anticipated.

The 5-year UK benchmark gilt yield began the financial year at 0.18% before declining to -0.03% at the end of 2020 and then rising strongly to 0.39% by the end of the financial year. Over the same period the 10-year gilt yield fell from 0.31% to 0.19% before rising to 0.84%. The 20-year declined slightly from 0.70% to 0.68% before increasing to 1.36%.

1-month, 3-month and 12-month SONIA bid rates averaged 0.01%, 0.10% and 0.23% respectively over the financial year.

1-month, 3-month, 6-month, and 12-month LIBID (London Interbank Bid) rates averaged -0.05%, 0.01%, 0.07%, and 0.17% respectively over the period.

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

Money Market Rates 2020-2021 (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
01/04/2020	-0.06	0.00	0.11	0.45	0.59	0.71	0.48
30/04/2020	-0.07	-0.03	0.08	0.47	0.56	0.70	0.43
31/05/2020	-0.07	-0.06	-0.03	0.10	0.25	0.44	0.25
30/06/2020	-0.07	-0.06	-0.03	0.02	0.17	0.30	0.18
31/07/2020	-0.07	-0.06	-0.07	-0.04	0.04	0.19	0.09
31/08/2020	-0.08	-0.07	-0.07	-0.06	-0.01	0.11	0.10
30/09/2020	-0.08	-0.08	-0.08	-0.06	-0.04	0.03	0.08
31/10/2020	-0.08	-0.08	-0.08	-0.08	-0.07	0.00	0.06
30/11/2020	-0.08	-0.09	-0.09	-0.08	-0.06	0.00	0.08
31/12/2020	-0.09	-0.10	-0.11	-0.10	-0.10	-0.04	0.03
31/01/2021	-0.09	-0.09	-0.10	-0.09	-0.08	-0.04	0.10
28/02/2021	-0.09	-0.09	-0.08	-0.06	-0.04	0.02	0.26
31/03/2021	-0.09	-0.08	-0.08	-0.04	-0.01	0.04	0.28
Average 2020-21	**-0.08**	**-0.07**	**-0.05**	**0.01**	**0.07**	**0.17**	**0.17**
Minimum	-0.09	-0.10	-0.11	-0.10	-0.10	-0.05	0.02
Maximum	-0.06	0.00	0.14	0.56	0.62	0.77	0.50
Spread	0.03	0.10	0.25	0.66	0.72	0.83	0.48
Average 2019-20	**0.52**	**0.53**	**0.56**	**0.63**	**0.70**	**0.80**	**0.83**
Difference in average	**-0.60**	**-0.60**	**-0.61**	**-0.62**	**-0.63**	**-0.63**	**-0.63**

PWLB Rates 2020-21 (Maturity rates unless stated)

	5 Year	5 Year EIP	10 Year	15 Year EIP	30 Year	50 Year
01/04/2020	2.12	1.65	2.04	1.88	2.58	2.44
30/04/2020	2.11	1.78	2.22	2.06	2.71	2.58
31/05/2020	1.98	1.57	1.90	1.74	2.48	2.36
30/06/2020	1.94	1.59	1.88	1.73	2.49	2.36
31/07/2020	1.87	1.40	1.70	1.53	2.41	2.32
31/08/2020	2.02	1.35	1.41	1.31	2.01	1.88
30/09/2020	1.94	1.34	1.47	1.33	2.01	1.87
31/10/2020	1.96	2.48	2.61	2.48	3.18	3.05
30/11/2020	1.03	2.51	2.65	2.52	3.21	3.08
31/12/2020	0.95	2.60	2.87	2.74	3.39	3.25
31/01/2021	1.03	2.45	2.53	2.43	3.04	2.91
28/02/2021	1.40	2.33	2.45	2.32	2.94	2.79
31/03/2021	1.38	2.12	2.34	2.22	2.80	2.58
Average 2020-21	**1.70**	**1.64**	**2.01**	**1.86**	**2.51**	**2.33**
Minimum	0.92	0.87	1.20	1.06	1.71	1.51
Maximum	2.19	2.16	2.48	2.29	3.06	2.90
Spread	1.27	1.29	1.28	1.23	1.35	1.39
Average 2019-20	**1.97**	**1.97**	**2.20**	**2.07**	**2.74**	**2.60**
Difference in average	**-0.27**	**-0.33**	**-0.19**	**-0.21**	**-0.23**	**-0.27**

Appendix D

The Portfolio Position as at 31st March 2021 and a comparison with 2020 are set out below:

Table 1 – Debt Portfolio

	Balance on 31-03-2020 £m	Debt Matured / Repaid £m	New Borrowing £m	Balance on 31-03-2021 £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

	31-03-2020 Rate %	31-03-2021 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 2020 to 2023. 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 £113m (including externalising all internal borrowing) may have been necessary.

As the differential between investment earnings and debt costs remained negative during 2020-21, 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 2020-21, there were no scheduled debt maturities. The PWLB portfolio remained the same.

Table 3 – Investments as at 31st March 2021

	Balance as at 31-03-2020 £m	**Rate of Return at 31-3-2020 %**	**Balance as at 31-03-2021 £m**	**Rate of Return at 31-03-2021 %**
Short-Term Balances (Variable)	42.09	0.54	75.63	0.04
Comfund (Fixed)	127.00	0.90	160.00	0.39
Pooled Funds	15.00	4.63	40.00	2.92
Total Lending	**184.09**	**1.12**	**275.63**	**0.66**

Table 4 - Investment balances by type

	31 March 2020 £m	31 March 2021 £m	Change
Money Market Funds	27.09	25.63	-1.46
Notice Bank Accounts	75.00	60.00	-15.00
Time Deposits - Banks	25.00	20.00	-5.00
Time Deposits - LAs	42.00	130.00	+88.00
Pooled Funds	15.00	40.00	+25.00
Total Lending	**184.09**	**275.63**	**+91.54**

Table 5 - Breakdown of investment balances by source

	31 March 2020 £m	31 March 2021 £m	Change
ENPA / SWC	-0.04	0.04	+0.08
Organisations in the Comfund	7.40	7.22	-0.18
LEP – Growth Deal Grant	15.77	41.69	+25.92
Earmarked funds held on other decision-making bodies behalf	13.10	12.55	-0.55
CCG Prepayment	0.00	31.60	+31.60
Total Externals	**36.23**	**93.10**	**+56.87**
SCC	147.86	182.53	+34.67
Total	**184.09**	**275.63**	**+91.54**

Total lending as at 31st March 2021, including unspent LEP money, stood at over £275m, an increase of nearly £92m from 2020.

The investments balance was inflated in late March as SCC received £30m+ in the last few days of March, £25m related to the Somerset CCG and various Health grants from Central Government.

The Comfund investment of £160.0m was £33.0m higher, whilst revenue lending was £33.5m higher as the Somerset CCG sent £25m+ with only a few days of the year left. During the year, a further £25m was invested in Pooled Funds (£15m in the Royal London Investment Grade Short-Dated Credit Fund, and £10m in the M&G Strategic Corporate Bond Fund) bringing Pooled Fund investment to £40m.

Revenue balances held on behalf of others at year-end increased by £0.08m. Investment in the Comfund by external bodies decreased slightly, from £7.40m to £7.22m. Three large grants of £25.6m, £12.8m, and £17.7m, and a decrease in spending by the LEP meant an increase of £25.9m of that money. £61.5m was managed on behalf of others at year-end 2021, an increase of £25.3m, plus a £31.6m prepayment made by the NHS Clinical Commissioning Group (CCG).

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 2020-21, SCC was retained to manage the Local Enterprise Partnership (LEP) Growth Deal Grant on behalf of the other Enterprise Partners. Further grants of £25.6m, £12.8m, and £17.7m were received during the year and added to the £15.77m already held. £41.7m was held on behalf of the LEP at year-end.

Appendix E

Temporary Borrowing

There were no temporary loans taken during 2020-21.

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. On October 9th 2019 with no prior warning, HM Treasury arbitrarily raised the rate by a further 100 basis points above the corresponding Gilt yield. On 26th November 2020 this decision was reversed, and PWLB loans were instantly 1% cheaper than they had been. Government did put in place provisions to ensure that Local Authorities were not to have access to 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, 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 inevitably ended the year lower than in March 2020 due to the HM Treasury reversal of the extra 1% on rates in November 2020. Rates had been trading within a fairly narrow band up until November, but as Brexit transition talks became tense, and a second wave of coronavirus hit, rates reduced to year lows in December. Rates did rise significantly in February and March 2021 as the Brexit transition was done, and the coronavirus vaccine programme started to successfully rollout. As a result of the above, 5-year, 10-year and 50-year maturity rates averaged 1.70%, 2.01%, and 2.33% respectively for 2020-21, and at 31st March 2021 were 1.38%, 1.91%, and 2.19%.

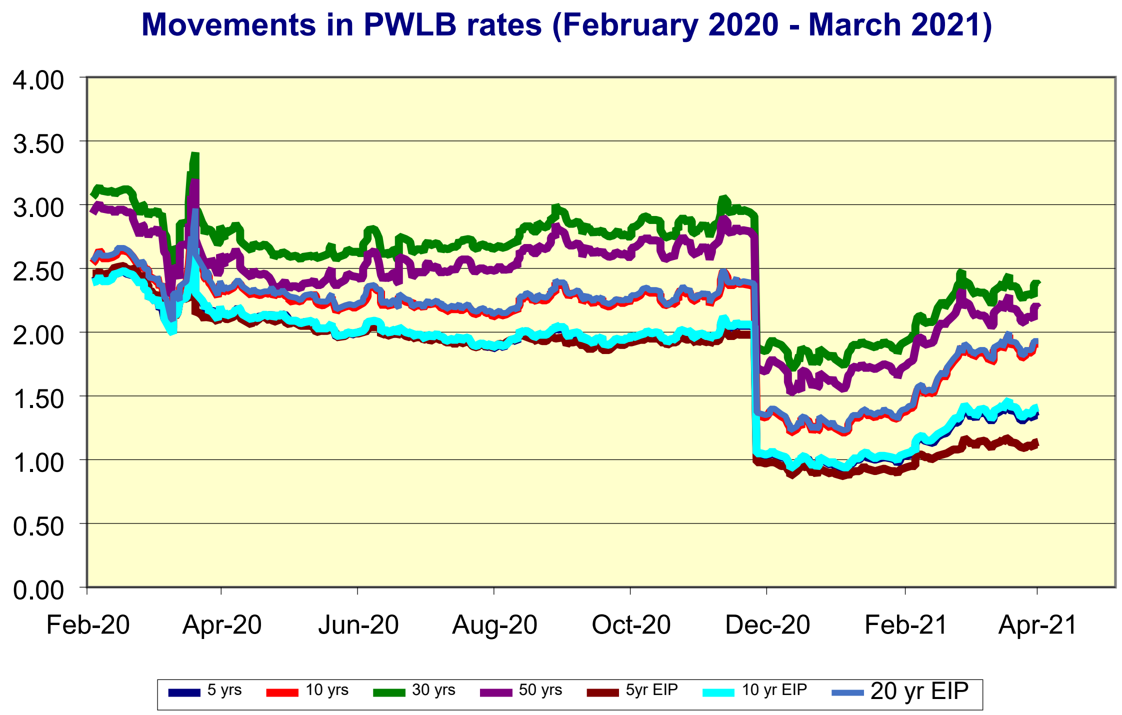
Spreads across all shorter maturities were most volatile, the five-year Maturity rate showing a maximum of 2.19% and a minimum of 0.92%, and the 10-year Maturity rate a maximum of 2.48% and a minimum of 1.20%, producing spreads of 1.27% and 1.28% respectively during the year.

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 2021 a premium of £101.9m would have been payable (64% 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 2020-21 (Maturity rates unless stated)

	5 Year	5 Year EIP	10 Year	15 Year EIP	30 Year	50 Year
01/04/2020	2.12	1.65	2.04	1.88	2.58	2.44
30/04/2020	2.11	1.78	2.22	2.06	2.71	2.58
31/05/2020	1.98	1.57	1.90	1.74	2.48	2.36
30/06/2020	1.94	1.59	1.88	1.73	2.49	2.36
31/07/2020	1.87	1.40	1.70	1.53	2.41	2.32
31/08/2020	2.02	1.35	1.41	1.31	2.01	1.88
30/09/2020	1.94	1.34	1.47	1.33	2.01	1.87
31/10/2020	1.96	2.48	2.61	2.48	3.18	3.05
30/11/2020	1.03	2.51	2.65	2.52	3.21	3.08
31/12/2020	0.95	2.60	2.87	2.74	3.39	3.25
31/01/2021	1.03	2.45	2.53	2.43	3.04	2.91
28/02/2021	1.40	2.33	2.45	2.32	2.94	2.79
31/03/2021	1.38	2.12	2.34	2.22	2.80	2.58
Average 2020-21	**1.70**	**1.64**	**2.01**	**1.86**	**2.51**	**2.33**
Minimum	0.92	0.87	1.20	1.06	1.71	1.51
Maximum	2.19	2.16	2.48	2.29	3.06	2.90
Spread	1.27	1.29	1.28	1.23	1.35	1.39
Average 2019-20	**1.97**	**1.97**	**2.20**	**2.07**	**2.74**	**2.60**
Difference in average	**-0.27**	**-0.33**	**-0.19**	**-0.21**	**-0.23**	**-0.27**



During 2020-21, 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 £83m were in their option state during 2020-21. None of the lenders exercised their option to request an increase in the rate applied. As stated in the 2020-21 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 31.0 years, whilst the PWLB loans average was 23.2 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		**Sterling CNAV Money Market Funds**	
Close Brothers Ltd		Goldman Sachs MMF	
Commonwealth Bank of Australia		Deutsche MMF	
DBS Bank Ltd	*	Invesco Aim MMF	*
DZ Bank		Federated Prime MMF	*
Goldman Sachs International Bank	*	JP Morgan MMF	
HSBC Bank	*	Insight MMF	*
Landesbank Hessen-Thuringen		Aberdeen Standard MMF	*
Lloyds Bank	*	LGIM MMF	*
National Australia Bank		SSGA MMF	*
National Westminster	*	Aviva MMF	*
Nationwide BS			
Nordea Bank		**Other Counterparties**	
OP Corporate Bank		Other Local Authorities	* (37)
Oversea-Chinese Banking Corporation		Debt Management Office	
Rabobank		CCLA Property Fund	*

Royal Bank of Scotland		RLAM Credit Fund	*
Santander UK	*	M&G Corporate Bond 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.

For all the economic turmoil during the year, there were minimal credit rating changes during the period; However, in April 2020 Fitch Ratings applied a Negative outlook to most UK Banks, and S&P followed suit in May, and also included several European and Australian Banks. Fitch did downgrade Rabobank and ANZ from AA- to A+, S&P did likewise with HSBC. Moody's reduced Nationwide from Aa3 to A1.

There continues to be much uncertainty around the extent of the losses banks and building societies will suffer due to the impact from the coronavirus pandemic. 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 remained at 35 days throughout the year, for new deposits.

As duration advice has been limited to 35-days on new bank lending (and the number of counterparties recommended has been significantly reduced by Arlingclose), there have been minimal opportunities to use banks, as they are either not in the market in this period, or rates have been negligible or even negative. In order to place deposits for longer maturities, and to pick up a better yield, more deposits have been placed with UK Local Authorities. At times, this too has been difficult, as the deluge of money from Central Government has increased liquidity and reduced the number of Local Authorities looking to borrow money. At times there have been no Local Authorities looking to borrow money, and this has kept rates suppressed.

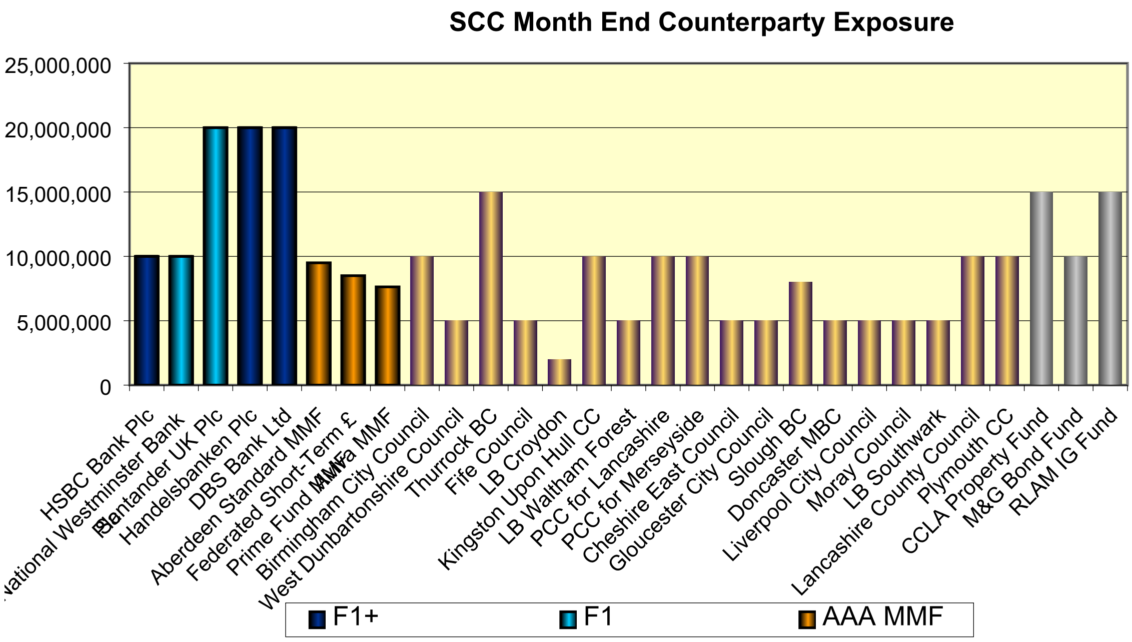
Outside of Arlingclose advice, SCC continues to hold £15m in a 95-day notice account with Santander UK, and an Instant Access account with Handelsbanken Plc, the UK arm of the 6th strongest commercial bank in the world in 2020.

After spiking in March 2020, credit default swap spreads declined over the remaining period of the year to broadly pre-pandemic levels. The gap in spreads between UK ringfenced and non-ringfenced entities remained, albeit Santander UK is still an outlier compared to the other ringfenced/retail banks. At the end of the period Santander UK was trading the highest at 57bps and Standard Chartered the lowest at 32bps. The other ringfenced banks were trading around 33 and 34bps while Nationwide Building Society was 43bps.

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 131 days. This had been extended to 164 days by December as some Local Authorities were looking for cash. The average duration at the year-end was 156 days, with the average for the year being 4.98 months.

In order to increase diversification of the portfolio and to increase duration where possible, more deposits were placed with UK Local Authorities. Thirty-seven loans were placed with Local Authorities during the year (16 in 2019-20). 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 2021.



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.

Pooled Funds: The decision to invest further into Pooled Funds was 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.

During 2020-21, SCC increased investment into Pooled Funds by £25m, to £40m. £15m was maintained in the CCLA Property Fund, whilst £15m was invested in the Royal London Investment Grade Short-Dated Credit Fund (RLAM), and a further £10m into the M&G Strategic Corporate Bond Fund (M&G).

CCLA Property Fund: This Fund 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".

As at 31st March 2021 the Net Asset Value of the SCC holding was £14,080,663 and a Bid Price (value at which investment could be sold) of £13,862,473. The value of the fund had steadily decreased from March to November but has recovered since December to a price similar to March 2020. This volatility is why it is seen as a long-term investment. In the meantime, the average Property Fund yield of circa 4.04% net, was circa 3.58% above average cash yields, and provided approximately £537,000 of extra income during the year.

RLAM: This Fund is an actively managed, diversified Investment Grade Short-Dated Credit Fund. £15m has been invested, £10m in December 2020, and a further £5m at the end of March 2021. As at 31st March 2021 the Bid value (value at which investment could be sold) of the SCC holding was £14,940,828. Income of £55,463 has been received, and at year-end it was yielding 2.25%.

M&G: This Fund is an actively managed, diversified Strategic Corporate Bond Fund. £10m has been invested in March 2021. As at 31st March 2021 the Bid value (value at which investment could be sold) of the SCC holding was £9,891,849, and at year-end it was yielding 2.51%.

The combined yield of all 3 Pooled Funds as at 31st March was 2.92%.

Yield: The Council sought to optimise returns commensurate with its objectives of security and liquidity. The historically low base rate of 0.10% prevailed throughout the year, and the MPC increased the amount of QE, buying more of both Government and Corporate Bonds. With several members of the MPC stating that negative interest rates should be part of the Bank's toolkit (even if not deployed), a second wave of COVID gaining momentum, and stuttering trade talks with the EU, the market anticipated the worst, and investment rates reflected that. At the nadir in December, all LIBID rates (benchmark BID rates at which banks will lend to each other) out to one year were negative. 1-month, 3-month, 6-month and 12-month LIBID rates reached lows of -0.11%, -0.10%, -0.10%, and -0.04% respectively. However, from early 2021 the improved economic outlook due to a successful trade deal with the EU, various new stimulus packages, together with the approval and successful rollout of vaccines, caused the market to reassess, and longer-term rates at least turned positive.

1-month, 3-month, 6-month and 12-month LIBID rates averaged -0.05%, +0.01%, +0.07% and +0.17% respectively for 2020-21, more than 0.60% less than averages for 2019-20.

As at 31st March 2021 1-month, 3-month, 6-month and 12-month LIBID rates were -0.08%, -0.04%, -0.01% and +0.04% respectively. A table of rates is shown below.

Money Market Rates 2020-21 (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
01/04/2020	-0.06	0.00	0.11	0.45	0.59	0.71	0.48
30/04/2020	-0.07	-0.03	0.08	0.47	0.56	0.70	0.43
31/05/2020	-0.07	-0.06	-0.03	0.10	0.25	0.44	0.25
30/06/2020	-0.07	-0.06	-0.03	0.02	0.17	0.30	0.18
31/07/2020	-0.07	-0.06	-0.07	-0.04	0.04	0.19	0.09
31/08/2020	-0.08	-0.07	-0.07	-0.06	-0.01	0.11	0.10
30/09/2020	-0.08	-0.08	-0.08	-0.06	-0.04	0.03	0.08
31/10/2020	-0.08	-0.08	-0.08	-0.08	-0.07	0.00	0.06
30/11/2020	-0.08	-0.09	-0.09	-0.08	-0.06	0.00	0.08
31/12/2020	-0.09	-0.10	-0.11	-0.10	-0.10	-0.04	0.03
31/01/2021	-0.09	-0.09	-0.10	-0.09	-0.08	-0.04	0.10
28/02/2021	-0.09	-0.09	-0.08	-0.06	-0.04	0.02	0.26
31/03/2021	-0.09	-0.08	-0.08	-0.04	-0.01	0.04	0.28
Average 2020-21	**-0.08**	**-0.07**	**-0.05**	**0.01**	**0.07**	**0.17**	**0.17**
Minimum	-0.09	-0.10	-0.11	-0.10	-0.10	-0.05	0.02
Maximum	-0.06	0.00	0.14	0.56	0.62	0.77	0.50
Spread	0.03	0.10	0.25	0.66	0.72	0.83	0.48
Average 2019-20	**0.52**	**0.53**	**0.56**	**0.63**	**0.70**	**0.80**	**0.83**
Difference in average	**-0.60**	**-0.60**	**-0.61**	**-0.62**	**-0.63**	**-0.63**	**-0.63**

Comfund: Comfund investment increased to £160m at year-end 2021, by £33.0m from the £127m at year-end 2020, driven mainly by holding extra LEP money, and reduced capital expenditure due to COVID.

The average balance of the Comfund throughout 2020-21 was £148.9, a £16.6m decrease on the previous years' average.

The Comfund vehicle, with an annual return of 0.62% outperformed the benchmark for base rate of 0.10% for the year, by 0.52%. Some outperformance would be anticipated in a falling rate market.

A total of approximately £920k was earned in interest in the year, despite ultra-low / negative rates, and a restricted choice of bank counterparties. However, it was a decrease of £730k on the figure for 2019-20 of £1.65m.

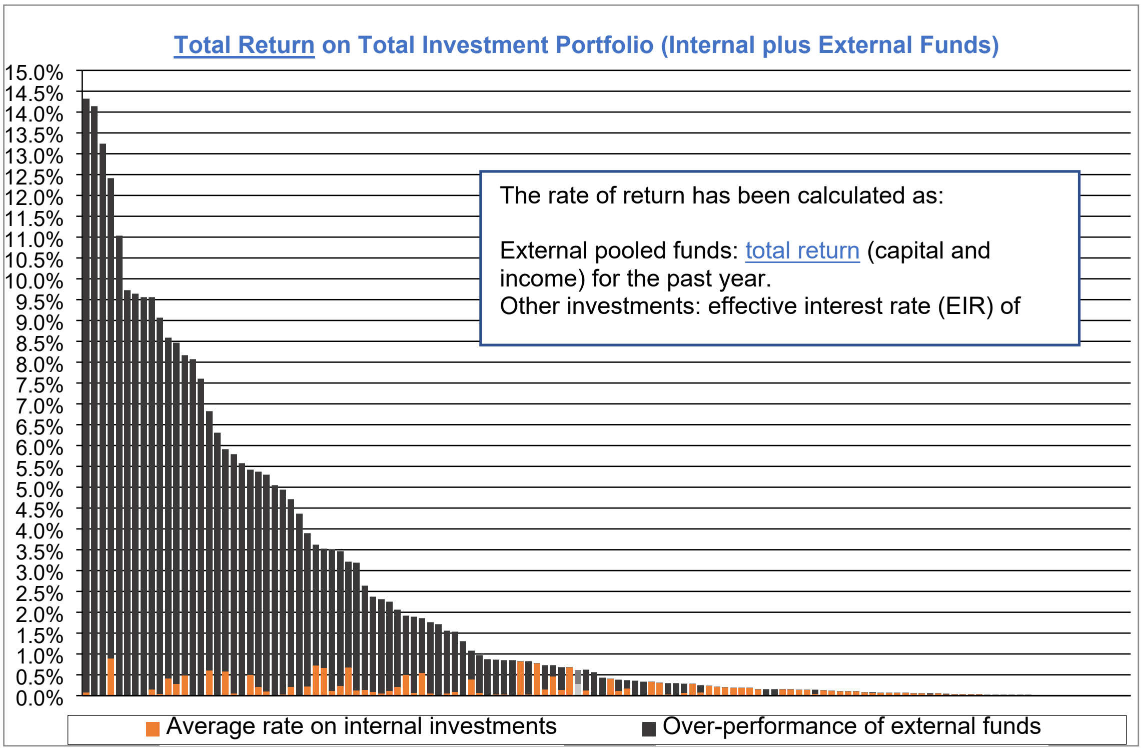
Revenue: Revenue balances averaged £71.2m during the year, with an average yield of 0.12%. This compares favourably to a normal money market fund benchmark of 7-day LIBID (London Interbank Bid Rate, an average of bid rates that banks are willing to lend to each other), the average for which was -0.07%. This income stream earned interest of over £84,000.

Pooled Funds: Further investments of £25m were made into Pooled Funds during 2020-21. Due to the volatility in markets in the early part of the financial year, investments were not made until volatility subsided in the second half of the year. This reduced the opportunity for income from this source during the year. For the year to 31st March 2021 Pooled Funds delivered an average net income yield of 3.50%, and £662k.

Combined: The combined average daily balance of the Council's investments during 2020-21 was £239m against £214m for 2019-20. The overall weighted investment return of combined investments was 0.70% against a return of 1.11% for 2019-20. Excluding the Pooled Funds, cash returns were 0.46% compared to 0.95% for 2019-20.

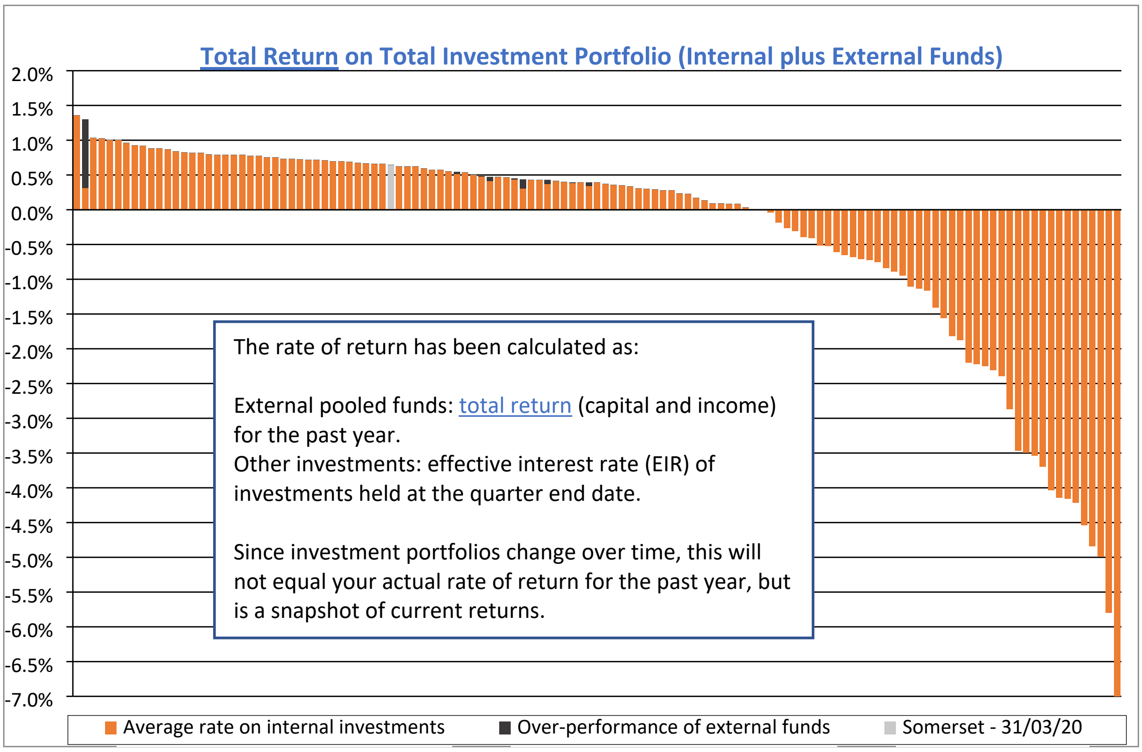
Comparison against other Local Authorities clients of Arlingclose

2020-21 was the eleventh 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.

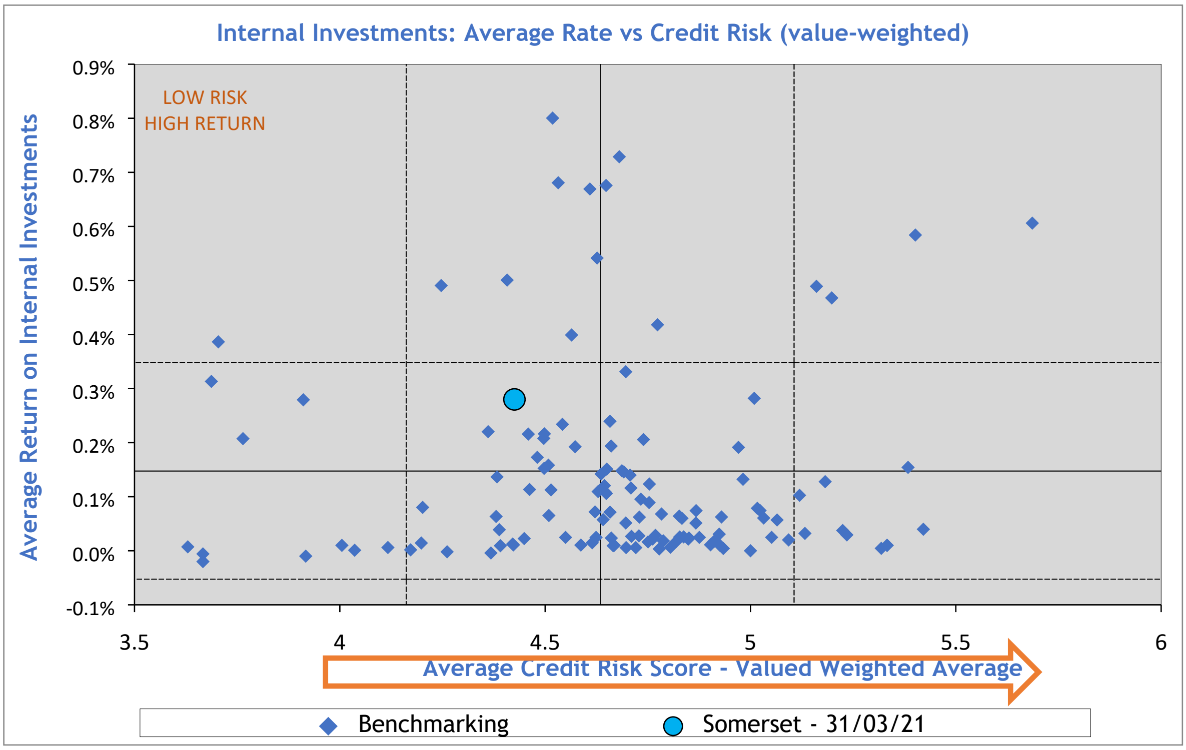


Returns as at 31st March 2021, including esoteric investments can be seen in the graph above (if in black & white, SCC is the bar 3rd to the right of the second 'S' in investments in the graph legend). To give some perspective to the stellar total returns by many this year, the graph from the previous year has been left in below, highlighting that many Local Authorities are holding extremely volatile investments.

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).



A comparison of internally managed investments only is included below, showing performance on a returns v credit risk basis. Note: The Arlingclose report compares quarter-end figures only.



This graph shows that SCC has a return that is better than the average, with the average credit risk score lower than other comparators.

When comparing the year-end average days to maturity the SCC average is 98 (74 in 2019-20) days, all other Local Authorities just 14 (20), and 983 (644) days for other County Councils. The SCC average is more than **2.4 years** (1.5 in 2019-20) below that of other County Councils. This in part reflects the fact that SCC has been holding an average of approximately £44.5m 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 Arlingclose report compares quarter-end figures only, and comparisons can be seen below.

	Rate		Balance (£m)	
	SCC	Others	SCC	Others
June 2020	0.65%	0.39%	212	66
September 2020	0.41%	0.27%	240	74
December 2020	0.34%	0.15%	223	76
March 2021	0.28%	0.15%	236	74
Average	**0.42%**	**0.24%**	**228**	**72.5**

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.

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 Pooled Funds).

The overall return has produced a total income of £1.665m, down by £705,000 from 2019-20 on a higher average balance but drastically reduced 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 0.01%, or £24k, a reduction in income of £1.64m.

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 £133k.

Icelandic Investments Update

Landsbanki & Glitnir – As reported in the end of 2019-20 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 2020-21, £17,535.38 on 1st April 2020 and £13,409.41 on 17th December 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. A further dividend has been declared and will be paid in April or May 2021.

In total, as at 31st March 2021 £23,349,613.41 had been recovered. The shortfall of £1.65m 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 2020-21. Those indicators agreed by Full Council and actual figures as at 31st March are included below:

Borrowing	**Limit for 2020-21**	**As at 31-03-21**
Authorised Limit	**640**	**332**
Operational Boundary	**595**	**332**

Maturity Structure of Borrowing	**Upper**	**Lower**	**Actual**
Under 12 months	50%	15%	27.3%
>12 months and within 24 months	25%	0%	0.0%
>24 months and within 5 years	25%	0%	13.6%
>5 years and within 10 years	20%	0%	4.8%
>10 years and within 20 years	20%	5%	10.8%
>20 years and within 30 years	20%	0%	6.0%
>30 years and within 40 years	45%	15%	37.5%
>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 £75m **Actual** £45m

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- (4.43)

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

During the year, HM Treasury conducted 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".

The conclusion was to ban access to PWLB funds for Authorities that chose to invest in 'investments primarily for yield'. It also reduced PWLB rates to their previous levels in November 2020, i.e. 1% over Gilts from 2%.

Furthermore, a consultation was launched on proposed changes to the CIPFA Treasury Management and Prudential Codes. The outcome will be revealed later in 2021 for implementation in 2021-22.

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 2020.

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 Autumn 2020, reporting in November 2020. It awarded the best possible outcome, as quoted below.

"SWAP conducted a Treasury Management review as part of the 2019/20 Internal Audit Plan and provided a Substantial assurance opinion. Since then, the COVID-19 pandemic has required the Investments team to move to a fully electronic review and authorisation processes.
This additional Substantial assurance opinion has been given on the basis that the amended processes are operating effectively.

A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited".

Arlingclose have been retained Treasury Advisors throughout the period.

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