

2020/21 Treasury Management Mid-Year Performance Report and Strategy Update

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Purpose of Report

1. To present the Council's 2020/21 mid-year treasury performance report and seek support of Members for updates to the Treasury Management Strategy for the remainder of the financial year.

Recommendation

2. The Audit Committee is asked to note the actual and forecast treasury performance, and endorse the updated Treasury Management Strategy Statement and Investment Strategy for recommendation to Council.

Introduction and Background

3. The Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management in the Public Services Code of Practice requires the Council to approve an annual Treasury Management Strategy and, report treasury performance mid-year and at the year end.
4. The Council has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk is therefore central to the Treasury Management Strategy.
5. In line with the requirements of the 2017 Prudential Code, Council approved the Capital, Investment and Treasury Strategy in February 2020. These are intrinsically linked so, whilst in the past these have been presented to Members as separate reports, they were pulled together into a consolidated document this year.
6. This report provides information on the performance of the Council's Treasury Investments for the first six months of the 2020/21 financial year. The performance of the Council's Commercial Investments which are part of the Commercial Strategy is reported separately through 6-monthly update reports therefore that detail is not included in this report. On this basis it is worth noting that whilst the treasury income and cost implications of commercial investment acquisitions are included within this report, the investment property income is not.
7. CIPFA has defined Treasury Management as: "the management of the organisation's 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."
8. The Council has delegated responsibility for the oversight and monitoring of its treasury management policies and practices to Audit Committee, and for the execution and administration of treasury management decisions to the S151 Officer who will act in accordance with the organisation's policy statement and Treasury Management Practices (TMPs), and CIPFA's standard of Professional Practice on Treasury Management.

9. 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. Specific risks are identified in the Council's approved Treasury Management Practices. The risks include:
- Liquidity Risk (Adequate cash resources)
 - Interest Rate Risk (Fluctuations in the value of investments and borrowing).
 - Inflation Risks (Exposure to inflation)
 - Fraud, Error and Corruption, and Contingency Management (Exposure to loss through fraud, error or other eventualities)
 - Refinancing Risks (Impact of debt maturing in future years).
 - Legal & Regulatory Risk (Compliance with statutory and regulatory requirements).
10. The Local Government Act 2003 requires the Council to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable. The Act therefore requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy; this sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.
11. When the strategy for 2020/21 was written it took into account the Council's current treasury position and drew upon the forecasts for interest rates provided by the Council's treasury advisors, Arlingclose, leading to the proposed Prudential Indicators included. This has been updated with the most recent forecast as at September 2020.
12. The updated Treasury Management Strategy is attached at Appendix 1.
13. The remainder of the report provides information on:
- Regulatory updates
 - Treasury Management Position
 - Current Borrowing
 - Treasury Investment Activity
 - Pooled Fund Investments
 - Non Treasury Investments

Treasury Management Position – Summary

14. The treasury management position as at 30th September 2020 and the change during the year is shown in the Table 1.

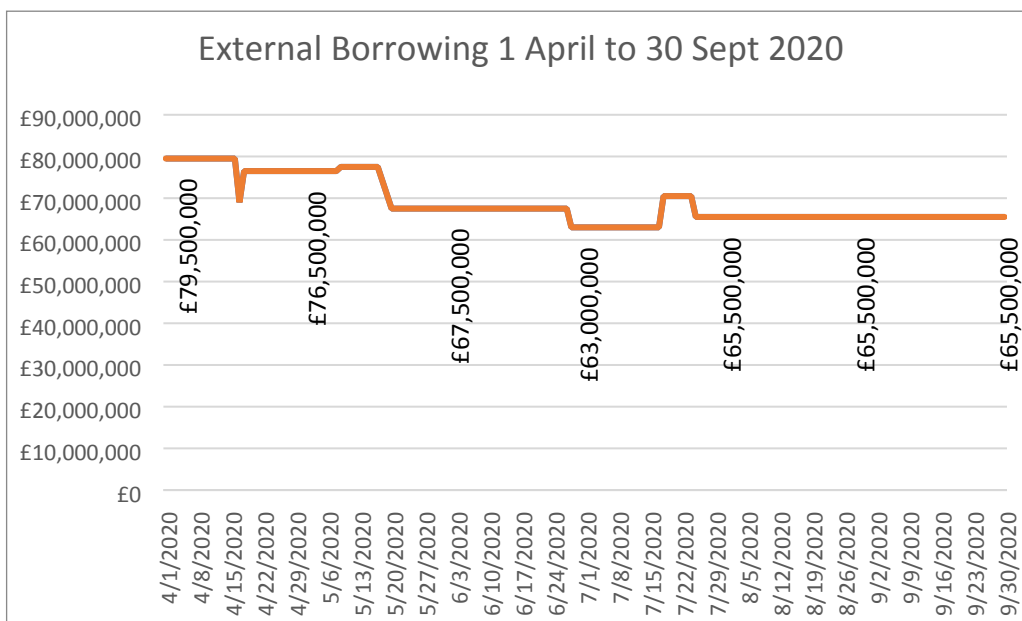
Table 1: Treasury Management Position - Summary

	31/3/20 Balance £m	Net Movement £m	30/9/20 Balance £m
Long-term borrowing	0.00	0.00	0.00
Short-term borrowing	-79.50	14.00	-65.50
Total borrowing	-79.50	14.00	-65.50
Long-term investments	2.00	-1.00	1.00
Short-term investments	8.00	-6.00	2.00
Cash and cash equivalents	22.43	2.14	24.57
Total investments	32.43	-4.86	27.57
Net Position	-47.07	-19.32	-37.93

15. External borrowing has decreased during the first six months of the year due to a significant element of the loan portfolio maturing in this period. Cashflow has meant that not all of the matured borrowing needed replacing. In addition, during the period there has been no investment property acquisitions as part of the Commercial Strategy. These acquisitions are financed by external borrowing. In line with treasury advice, the Council continues to utilise short term borrowing, which is flexible and keeps our borrowing costs low.
16. The Council has agreed £26m of borrowing with forward start dates taking the total value of external borrowing, either in place or committed, to £91.5m. £16m of this amount is due to start in late October and the remaining £10m has a start date of mid-March 2021. Forward starting borrowing removes an element of the interest rate risk that is associated with an investment or debt portfolio.
17. The projected value of long term borrowing as at 31 March 2021 was reported to Audit Committee in February 2020 in the Annual Treasury Management Strategy report. The external borrowing requirement at the end of the 2020/21 financial year was anticipated to be £112m, therefore the total borrowing to date is in line with the projections previously reported and continue to remain valid.
18. The amount of external borrowing will be dependent on the commercial property purchases that are made in the remaining part of the financial year which may mean the borrowing may be more or less than estimated at year end. In addition, it may be advantageous to continue to meet the financing requirement using short term rather than long term borrowing, however this is kept under review to strike the appropriate balance between costs and cost certainty.

External Borrowing

19. The graph shows the movement in the external borrowing position for 2020/21. It provides the amount of external borrowing on the first day of each month for the April to September period and the value of borrowing at 30 September 2020 (£65.5m).



20. Table 2 summarises the external borrowing position for 2020/21. It includes the opening position in respect of external loans, loans repaid, new loans, the average interest rate and the position as at 30th September.

Table 2: External Borrowing Summary

	Amount	Average Interest rate
External loans as at 1 April 2020	79,500,000	0.86%
New Loans	48,000,000	0.85%
Loans Repaid	-62,000,000	
Total External loans as at 30 Sept 20	65,500,000	1.44%
Forward starting Loans	26,000,000	0.24%
Total Loans	91,500,000	1.04%

21. The total value of external borrowing repaid in the first six months of 2019/20 was £62m, which included £52.5m of short-term borrowing undertaken in the previous financial year. See table 3 for details.

Table 3: Loans repaid - 2019/20 borrowing

Lender	Date Borrowed	Maturity Date	No of Days	Interest Rate	Amount £
Hampshire County Council	18/04/2019	17/04/2020	365	1.01%	5,000,000
South Yorkshire Pensions Authority	20/11/2019	20/05/2020	182	0.85%	5,000,000
Comhairle Nan Eilean Siar	20/11/2019	20/05/2020	182	0.85%	5,000,000
Staffordshire County Council	17/01/2020	17/04/2020	91	0.80%	5,000,000
Essex County Council	20/01/2020	17/04/2020	88	0.76%	10,000,000
East London Waste Authority	20/01/2020	20/04/2020	91	0.79%	3,000,000
City of Lincoln Council	20/01/2020	20/04/2020	91	0.78%	1,000,000
Tyne & Wear Pension Fund	20/01/2020	20/04/2020	91	0.79%	3,000,000
Dudley Metropolitan Borough Council	18/02/2020	27/04/2020	69	0.82%	5,000,000
Waverley Borough Council	19/02/2020	17/04/2020	58	0.85%	5,000,000
Lancaster City Council	18/03/2020	20/04/2020	33	1.05%	4,000,000
Gosport Borough Council	20/03/2020	20/04/2020	31	1.40%	1,500,000
				Total	52,500,000

22. The balance of £9.5m is in respect of the repayment of new borrowing taken for short durations between 1 April and 30 September 2020, the detail of the loans is included in the Table 4.

Table 4: Loans repaid - 2019/20 borrowing

Lender	Date Borrowed	Maturity Date	No of Days	Interest Rate	Amount £
Hertfordshire County Council Pension Fund	17/04/2020	30/06/2020	12	1.85%	4,500,000
Northern Ireland Housing Executive	27/04/2020	27/07/2020	10	0.80%	5,000,000
				Total	9,500,000

23. The total value of new borrowing for the first six months of 2020/21 was £48m. £9.5m of the loans taken were repaid in the period, details of the loans are included in Table 5.

Table 5: 2019/20 new borrowing - Loans repaid

Lender	Date Borrowed	Maturity Date	No of Days	Interest Rate	Amount £
Cornwall Council	17/04/2020	16/04/2021	364	1.75%	10,000,000
Hertfordshire County Council Pension Fund	17/04/2020	30/06/2020	74	1.85%	4,500,000
Wychavon District Council	20/04/2020	19/04/2021	364	1.75%	5,000,000
Derbyshire County Council	20/04/2020	20/10/2020	183	1.85%	10,000,000
Shropshire Council	20/04/2020	20/10/2020	183	0.85%	5,000,000
Northern Ireland Housing Executive	27/04/2020	27/07/2020	91	0.80%	5,000,000
Ryedale District Council	11/05/2020	10/05/2021	364	1.75%	1,000,000
Vale of Glamorgan Council	20/07/2020	19/01/2021	183	0.35%	2,500,000
PCC for West Yorkshire	20/07/2020	01/02/2021	196	0.36%	5,000,000
				Total	48,000,000

24. The balance of £65.5m is the value of external borrowing as at 30 September 2020, the detail of the loans are included in Table 6. The table shows that we have prioritised the inter-authority lending market, with the short-term loan interest rates ranging from 0.35% to 1.75%.

Table 6: External borrowing as at 30 September 2020

Lender	Date Borrowed	Maturity Date	No of Days	Interest Rate	Amount £
North Yorkshire County Council	20/03/2020	19/03/2021	364	1.75%	5,000,000
Tendring District Council	20/03/2020	19/03/2021	364	1.75%	1,000,000
Greater London Authority	20/03/2020	19/03/2021	364	1.75%	6,000,000
Milton Keynes Council	27/03/2020	26/03/2021	364	1.60%	5,000,000
Greater London Authority	30/03/2020	29/03/2021	364	1.75%	10,000,000
Cornwall Council	17/04/2020	16/04/2021	364	1.75%	10,000,000
Wychavon District Council	20/04/2020	19/04/2021	364	1.75%	5,000,000
Derbyshire County Council	20/04/2020	20/10/2020	183	1.85%	10,000,000
Shropshire Council	20/04/2020	20/10/2020	183	0.85%	5,000,000
Ryedale District Council	11/05/2020	10/05/2021	364	1.75%	1,000,000
Vale of Glamorgan Council	20/07/2020	19/01/2021	183	0.35%	2,500,000
PCC for West Yorkshire	20/07/2020	01/02/2021	196	0.36%	5,000,000
				Total	65,500,000

25. Details of the forward starting loans are included in Table 7 for information.

Table 7: Forward starting loans as at 30 September 2020

Lender	Date Borrowed	Maturity Date	No of Days	Interest Rate	Amount £
Great Yarmouth Borough Council	20/10/2020	20/07/2021	306	0.2000	2,000,000
Runnymede Borough Council	20/10/2020	20/08/2021	273	0.2300	3,000,000
Mid Devon District Council	20/10/2020	20/07/2021	304	0.2000	3,000,000
Police & Crime Commissioner for Gloucestershire	20/10/2020	20/04/2021	273	0.1500	3,000,000
Northern Ireland Housing Executive	20/10/2020	20/07/2021	182	0.2000	5,000,000
Great Yarmouth Borough Council	20/10/2020	20/07/2021	306	0.2000	2,000,000
London Borough of Wandsworth	19/03/2021	19/01/2022	306	0.4500	10,000,000
				Total	28,000,000

26. The above information in Tables 2-7 show that the current strategy of utilising short-term inter-authority lending for the Council's treasury borrowing requirement means interest rates and costs are relatively low. The exception to this is a period in March 2020 when borrowing was expensive as the demand for cash was high due to an anticipated shortage of cash available in the market. The anticipated lack of cash in the market was due to the expected income shortfall in respect of Council Tax and Non Domestic Rates meaning that a premium was being paid for borrowing for this period.
27. The tables demonstrate that rates have significantly reduced in the April to September period and short term borrowing for a 6 month period can now be sourced in the region of 0.20% - 0.30%. Borrowing for short periods takes advantage of the low rates on offer, and accepts an element of interest rate risk at the point of re-financing. The S151 Officer and treasury staff will continue to keep this under review, and will consider utilising long term borrowing in future to minimise interest risk and provide cost certainty.

Treasury Investment Activity

28. The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the first six months of the financial year the Council's investment balance has ranged between £29 million and £86 million.
29. The investment balance of £86 million was on 3 April 2020, the reason for the unusually high investment balance was due to MHCLG providing the £41m to the Council in respect of the Business Support Grants. The funds were invested in the Council's Money Market Funds, ensuring instant access to the funds and the Debt Management Office for short periods.
30. The balance on the business grants as at 30 September 2020 was £2.3m, meaning 94% of the business grant funding has been distributed to local businesses.

Breakdown of investments as at 30 September 2020

Table 8: Investments as at 30 September 2020

Date Invested	Counterparty	Nominal Amount £	Interest Rate	Maturity Date
11/11/16	Northumberland County Council	1,000,000	1.00%	11/11/20
	Corporate Bonds			
20/10/16	Santander UK Plc *Covered*	1,000,000	1.04%	14/04/21
10/11/16	National Australia Bank *Covered*	1,000,000	1.10%	10/11/21
	Money Market Funds & Business Reserve Accounts			
Various	Santander Business Reserve	3,000,000		
Various	Aberdeen (previously Standard Life)	360,000	0.75%	Not fixed
	Total Internal Investments	6,360,000	0.95%	
	Property & Pooled Funds			
Various	Royal London Cash Plus Fund	1,000,000	1.41%	Not fixed
Various	CCLA Property Fund	6,000,000	5.52%	Not fixed
Various	Ninety One Diversified Income Fund (formerly Invetec)	5,000,000	4.07%	Not fixed
Various	Schroder Income Maximiser Fund	6,250,000	5.20%	Not fixed
Various	Colombia Threadneedle Equity Income Fund	5,000,000	2.48%	Not fixed
Various	Fidelity	250,000	-	Not fixed

Date Invested	Counterparty	Nominal Amount £	Interest Rate	Maturity Date
	Total External Investments	23,500,000	3.60%	
	Total Investments	29,860,000	3.58%	

Note: Money Market Funds are instant access accounts so the rate displayed is a daily rate

***Covered Bond:** Debt securities issued by a bank or mortgage institution and are backed by a separate group of assets; in the event of failure of the issuer, the bond is covered. Covered bonds are subject to specific legislation to protect bond holders.

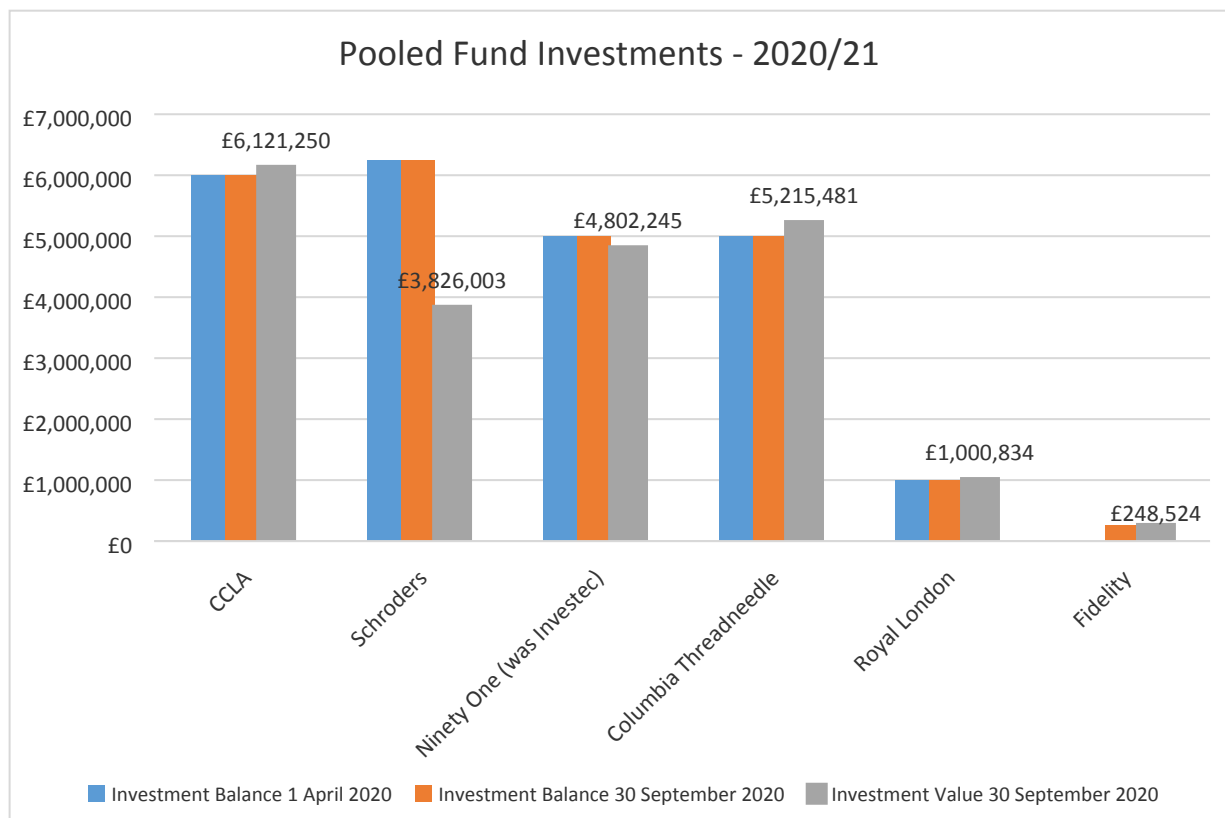
31. The Council has increased its strategic fund investments to £23.5m (£0.25m increase) and it is estimated that the level of strategic investments as at 31 March 2021 will remain in the region of £24m. The long term strategy is to invest up to £30m in strategic investments if cashflow permits.

Pooled Fund Investment - Values

32. The Council's pooled fund investments are held in externally managed funds where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability. This fits with the objectives of the Council's overall Financial Strategy.
33. In a relatively short period since the onset of the COVID-19 pandemic in March and the ensuing enforced lockdown in many jurisdictions, the global economic fallout has been sharp and considerable. Market reaction was extreme with large falls in equities, corporate bond markets and, to some extent, real estate echoing lockdown-induced paralysis and the uncharted challenges for governments, business and individuals.
34. The Council has investments in bond, equity, multi-asset and property funds. The fall in the capital values of the underlying assets, in particular bonds and equities were reflected in the 31st March 2020 fund valuations with most funds registering negative capital returns over a 12-month period. Since March there has been some improvement in market sentiment which is reflected in an increase in capital values of the short-dated, strategic bond, equity income and multi-asset income funds in the Council's portfolio. The capital value of the property fund is below that at 31st March. Market values at 1st April and 30th September 2020 are as shown in Table 9, below.
35. Similar to many other property funds, dealing (i.e. buying or selling units) in the CCLA Local Authorities Property Fund was suspended by the fund in March 2020. The relative infrequency of property transactions in March as the pandemic intensified meant that it was not possible for valuers to be confident that their valuations correctly reflected prevailing conditions.
36. To avoid material risk of disadvantage to buyers, sellers and holders of units in the property fund, the management company was obliged to suspend transactions until the required level of certainty is re-established. The dealing suspension was lifted in September 2020. There has also been a change to redemption terms for the CCLA Local Authorities Property Fund; from September 2020 investors will be required to give at least 90 calendar days' notice for redemptions.
37. In 2020/21 the Council expects to receive lower income from its cash and short-dated money market investments and from its externally managed funds than it did in 2019/20 and earlier years. Dividends and income paid will ultimately depend on many factors including but not limited to the duration of COVID-19 and the extent of its economic impact, the fund's sectoral

asset allocation, securities held/bought/sold and, in the case of equities, the enforced or voluntary dividend cuts or deferral.

38. The investment balance as at 30 September 2020 and the value of each investment as at 1 April and 30 September is detailed in the chart below.



Note: Pooled fund investments are revalued to reflect the fair value of the investment, the second and third bars in the graph signifies this value at 1 April and 30 September. The first bar represents the nominal investment balance in each fund at 30 September.

39. Table 9 below includes the opening and closing investment balances for each pooled fund investment. The investment fair value signifies the individual value of the investments after the year-end and mid-year valuation. The table shows that the 'fair value' of the portfolio has increased by £494k (excludes Fidelity) which is an increase of 2.41% between 1 April and 30 September, reflecting volatility in market value. The strategy works on the basis that investment values will go up and down but annual income return remains positive, and the Council would not plan to redeem the investment when its value is below the nominal balance unless this would be a prudent course of action.

Table 9: Pooled Fund Investments as at 30 September 2020

Investment	Investment Balance 30/09/2020 £	Investment Value 01/04/2020 £	Investment Value 30/09/2020 £
CCLA	6,000,000	6,386,905	6,121,250
Schroders	6,250,000	3,809,476	3,826,003
Investec	5,000,000	4,513,261	4,802,245
Colombia Threadneedle	5,000,000	4,772,497	5,215,481
Royal London	1,000,000	989,288	1,000,834
Fidelity	£250,000	£0	248,524
Total	23,500,000	20,471,426	21,214,337

Pooled Fund Investment – Income Return

40. The income generated from pooled fund investments for the first six months of 2020/21 and the rate of return is detailed in the following graph and Table 10. This demonstrates that the investment in the Schroder Income Maximiser and CCLA Funds have performed well in terms of income and rate of return on investment.
41. In addition, the investment value of the majority of the funds has increased in the period. This increase has been in the latter months as the investment values of the funds has marginally increased in the period. Overall the return on pooled funds has positively averaged over 4% during the first six months of the financial year.

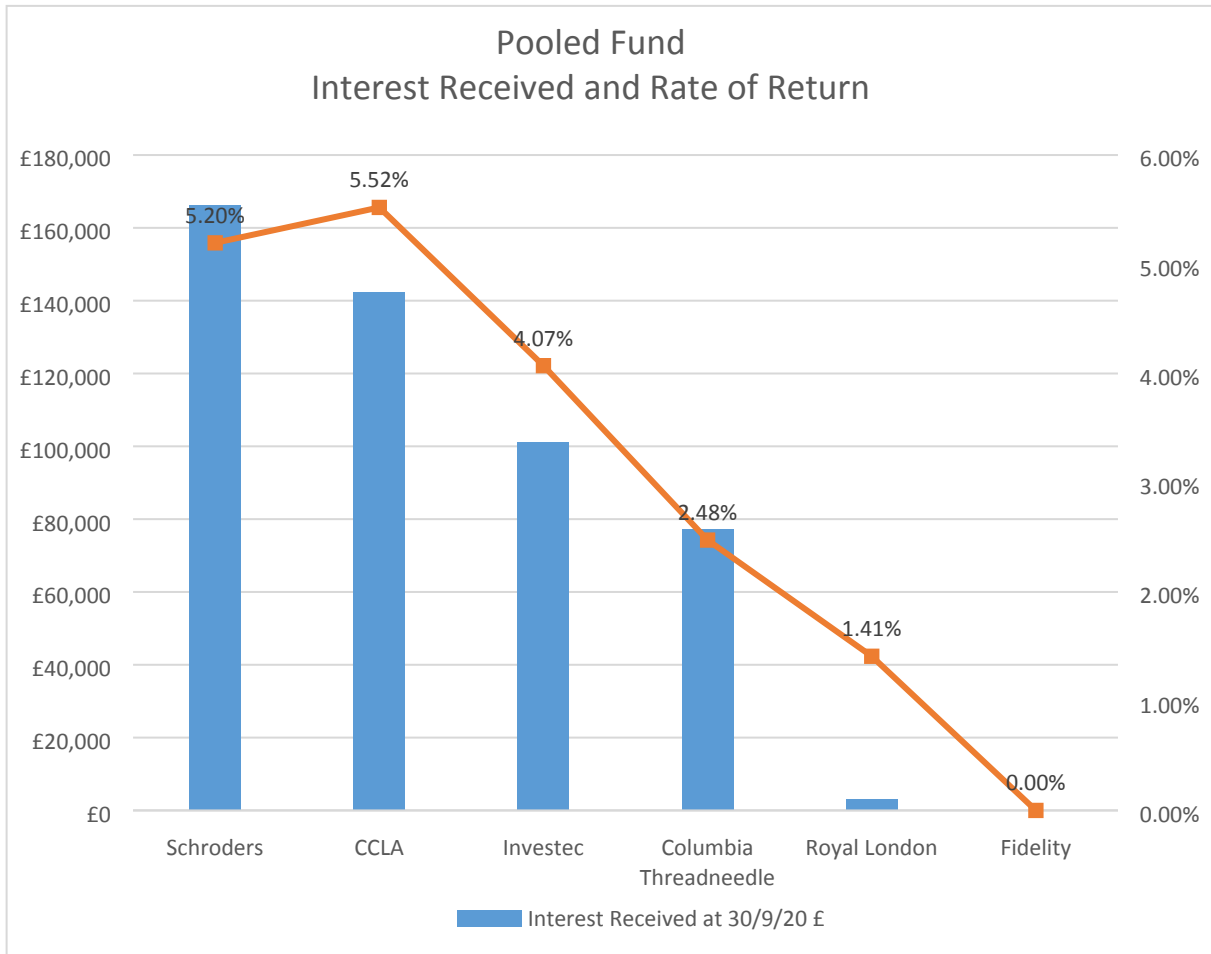


Table 10: Pooled Fund Investment Interest

Fund	Interest Received £	Rate of return %
Schroders	166,380	5.20%
CCLA	142,304	5.52%
Investec	101,187	4.07%
Columbia Threadneedle	77,384	2.48%
Royal London	3,224	1.41%
Fidelity	£0	0.00%
Total	490,479	4.21%

Non-Treasury Investments

42. The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Council as well as other non-financial assets which the Council holds primarily for financial return. This is replicated in MHCLG's Investment Guidance, in which the definition of investments is further broadened to also include all such assets held partially for financial return.
43. In addition to its treasury investments, the Council also held £17.50m in other investments in the form of loans. The largest element of these loans represents the Council's loan invested as part of its commercial investment property portfolio.
- Loan to Community Organisation - £0.15m
 - Loan to Trading Company - £0.13m
 - Loan to Local Authority Partnership - £4.90m
 - Loan for Commercial Activities - £12.32m
44. The detail of the Council's total investment in commercial investment property is reported separately. As part of its Commercial Strategy, investment in property has increased significantly in the past two years, and this will continue to grow over the next 2-3 years. The value of investment properties held on the balance sheet as at 31 March 2020 (including some properties held for a substantial period of time) was £71.97m. This has increased by £0.23m during this year, to £72.20m as at 30 September 2020 (not including the loan shown in the previous paragraph).

Financial Implications

45. There are no additional financial implications in reviewing the attached treasury management strategy.

Background Papers: *Treasury Management Strategy 2020/21 (Full Council February 2020)*
