This report will be made public on 13 October 2020

Folkestone & Hythe District Council

Report Number **C/20/39**

To:	**Cabinet**
Date:	**21 October 2020**
Status:	**Non-Key Decision**
Head of Service:	**Charlotte Spendley – Director of Corporate Services**
Cabinet Member:	**Councillor David Monk, Leader and Portfolio Holder for Finance**

SUBJECT: **TREASURY MANAGEMENT ANNUAL REPORT 2019/20**

SUMMARY: This report reviews the council's treasury management activities for 2019/20, including the actual treasury management indicators. The report meets the requirements of both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities. The Council is required to comply with both Codes through Regulations issued under the Local Government Act 2003.

REASONS FOR RECOMMENDATION:
Cabinet is asked to agree the recommendations set out below because:-

a) Both CIPFA's Code of Practice on Treasury Management in the Public Services and their Prudential Code for Capital Finance in Local Authorities, together with the Council's Financial Procedure Rules, require that an annual report on treasury management is received by the Council after the close of the financial year.

RECOMMENDATION:

1. To receive and note Report C/20/39.

1. INTRODUCTION

1.1 The annual treasury report is a requirement of the Council's reporting procedures. It covers the treasury activity for 2019/20 compared to the approved strategy for the year. It also summarises the actual treasury management indicators for 2019/20 compared to those approved for the year.

1.2 The report meets the requirements of both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities. The Council is required to comply with both Codes through Regulations issued under the Local Government Act 2003.

1.3 Cabinet approved the Treasury Management Strategy Statement for 2019-20, including treasury management indicators, on 20 February 2019 (report C/18/71 refers). Full Council approved the Capital Strategy for 2019-20 covering capital expenditure and financing, treasury management and non-treasury investments on 20 February 2019 (report A/18/23 refers). On 16 October 2019 Cabinet received an update on the council's treasury management activities and projections against the approved treasury management indicators for 2019/20 (report C/19/27 refers).

1.4 The Council's formal treasury management reporting arrangements comply with the requirements of the CIPFA's Treasury Management Code and also provide the opportunity for proper scrutiny of its treasury management activities.

2. ECONOMIC COMMENTARY

(Based on commentary supplied by Arlingclose Ltd, the Council's Treasury Advisor)

2.1 Economic Background

2.1.1 The key issues affecting the UK economy over the past year are summarised below.

i) The UK's exit from the European Union remained a major influence on the domestic economy until the outcome of the General Election in December 2019 and the subsequent signing of the withdrawal agreement removed a lot of the uncertainty.

ii) **Growth** - UK Gross Domestic Product (GDP) grew by just 1.1% for the year ending 31 December 2019, below expectations, on the back of concerns over the impact of global trade tensions on economic activity. However, GDP contracted by 2.3% in the quarter to 31 March 2020 due to the impact of the Covid-19 pandemic on the UK economy during March 2020.

iii) **Inflation** – Consumer Price Inflation (CPIH) peaked at 2.0% in April and July 2019, falling as low as 1.4% in December 2019 before ending at 1.5% in March 2020. The relatively low price of oil has been a factor in inflation remaining below the Bank of England's target of 2%.

iv) **Wages and Employment** – The labour market continued to show resilience with unemployment falling to a new low of just 3.8% during the year, its lowest level since 1975, before rising marginally to 3.9% by the end of March 2020. The UK employment reached a record high of 76.6% in March 2020. Real average earnings, after inflation and excluding bonuses, were up at 3.1% providing some evidence that a shortage of labour had been supporting wage growth prior to the impact of the pandemic.

v) **Global Economy** – Fears to the global economy were heightened during the year as the trade war between the United States and China intensified. However, the signing of Phase 1 of the trade agreement between the US and China in January was initially viewed as positive. However, the pandemic severely impacted the sentiment and production of both countries. The US Federal Reserve (Fed) had started cutting interest rates in August 2020 amid fears of a global recession. This saw rates fall from 2.5% to 1.75% before a cut to between 0% and 0.25% in March in response to the pandemic. The European Central Bank rate was already at 0% and this remained unchanged at March 2020.

vi) **Bank Base Rate** – The Bank of England left the Bank Base Rate unchanged at 0.75% until March 2020 when it responded to the emerging impact of the Covid-19 pandemic by cutting it initially to 0.25% and then to 0.1%.

2.2 Financial Markets

2.2.1 Gilt yields, which regulate borrowing rates through the Public Works Loan Board (PWLB), fell over the year although there were periods of volatility due in part to the economic and political uncertainty in the UK over Brexit up until the General Election in December. The 5-year benchmark gilt fell from 0.75% in April 2019 to 0.26% by 31 March 2020. The 10-year gilt fell from 1% to 0.4% and the 20-year gilt fell from 1.47% to 0.76% over the same period.

2.2.2 The 1-month, 3-month and 12-month LIBID money market rates, used as a benchmark for short term cash deposits, averaged 0.56%, 0.63% and 0.80% respectively over the year.

2.2.3 The equities market, as measured by the FTSE 100, saw its value reduce by about 30% from January to March 2020 as the impact from the pandemic worsened. Measures implemented by central banks and governments have helped to restore some confidence and financial markets have experienced a limited rebound in recent months but remain extremely volatile.

2.3 Credit Background

2.3.1 In December 2019 the Bank of England announced its latest stress tests results for the main seven UK banking groups and they all passed these affirming they have the capital buffers to withstand a deep recession.

2.3.2 Against a backdrop of the worsening financial impact of the global pandemic, and an increase in the Credit Default Swap spreads (the premium banks pay to guarantee liquidity for borrowing), Arlingclose reduced their recommended duration for unsecured investments with both UK and Non-UK banks to a maximum of 35 days from mid-March. This had no impact on the Council's investment position.

2.3.3 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 had no impact on the Council's investment position.

3. TREASURY POSITION AT 31 MARCH 2020

3.1 On 31 March 2020, the council had net investments of £29.7m arising from its revenue and capital income and expenditure, a decrease on 2019 of £12.5m. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors and the year-on-year change are summarised in table 1 below.

Table 1: Balance Sheet Summary

	31.3.19 Actual £m	2019/20 Movement £m	31.3.20 Actual £m
General Fund CFR	20.4	49.6	70.0
HRA CFR	47.4	-	47.4
Total CFR	**67.8**	**49.6**	**117.4**
Less, External Borrowing	56.4	33.9	90.3
Internal Borrowing	**11.4**	**15.7**	**27.1**
Less: Usable reserves	(51.2)	(2.3)	(53.5)
Less: Working capital	(2.4)	(0.9)	(3.3)
Net Investments	**(42.2)**	**12.5**	**(29.7)**

3.2 The net increase in the Council's CFR of £49.6m was reported to Cabinet on 24 June 2020 in the General Fund Capital Programme Outturn 2019/20 report (Report C/20/11 refers). Notably, capital expenditure in 2019/20 on the Otterpool Park Garden Town development (£31.1m) and the acquisition of the Connect 38 office building in Ashford (£17.7m) was met from prudential borrowing.

3.3 The council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low. The treasury management position as at 31 March 2020 and the year-on-year change in show in table 2 below.

Table 2: Treasury Management Summary

	31.3.19 Balance £m	2019/20 Movement £m	31.3.20 Balance £m
Long-term borrowing	54.8	3.7	58.5
Short-term borrowing	1.6	30.2	31.8
Total borrowing	**56.4**	**33.9**	**90.3**
Long-term investments	(19.0)	4.9	(14.1)
Short-term investments	(10.0)	6.5	(3.5)
Cash and cash equivalents	(13.2)	1.1	(12.1)
Total investments	**(42.2)**	**12.5**	**(29.7)**
Net borrowing	**14.2**	**46.4**	**60.6**

Note: the figures in the table are from the balance sheet in the authority's statement of accounts, but adjusted to exclude operational cash, accrued interest and other accounting adjustments.

3.4 The main reason for the increase in net borrowing of £46.4m was to meet capital expenditure financed from prudential borrowing, represented by the increase in the CFR described above.

4. BORROWING 2019/20

4.1 Borrowing Update

4.1.1 On 9th October 2019, and without prior notice, the PWLB raised the cost of certainty rate borrowing by 1% to 1.8% above UK gilt yields as HM Treasury was concerned about the overall level of local authority debt. PWLB borrowing remains available but the margin of 180bp above gilt yields appears relatively very expensive. Market alternatives are available and new products will be developed; however, the financial strength of individual authorities will be scrutinised by investors and commercial lenders.

4.1.2 The Chancellor's March 2020 Budget statement included significant changes to Public Works Loan Board (PWLB) policy and launched a wide-ranging consultation on the PWLB's future direction. Announcements included a reduction in the margin on new HRA loans to 0.80% above equivalent gilt yields, (the value of this discount is 1% below the rate at which the authority usually borrows from the PWLB), available from 12th March 2020 and £1.15bn of additional "infrastructure rate" funding at gilt yields plus 0.60% to support specific local authority infrastructure projects for England, Scotland and Wales for which there is a bidding process. The outcome of the PWLB consultation is expected to be known during the autumn of 2020.

4.2 Borrowing Activity 2019/20

4.2.1 At 31 March 2020, the Council held £90.3m of loans, an increase of £33.9m on the previous year, as part of its strategy for funding previous and current years' capital programmes. Following the introduction of the Housing Revenue Account (HRA) Self-Financing regime in 2012 the Council operates a two pool debt approach allocating its loans between the General Fund and HRA. The year-end borrowing position and the year-on-year change in show in table 3 below. A full list of the loans held at 31 March 2020 is shown in appendix 1 to this report

Table 3: Borrowing Position – Two Pool Debt Approach

	31.3.19 Balance £m	**2019/20 Movement £m**	**31.3.20 Balance £m**	**31.3.20 Rate %**
General Fund				
Public Works Loan Board	7.2	-	7.2	4.69%
Local Authorities (long-term)	-	5.0	5.0	1.60%
Local Authorities (short-term	0.5	30.0	30.5	0.95%
Total General Fund borrowing	7.7	35.0	42.7	3.29%
Housing Revenue Account Public Works Loan Board	48.7	(1.1)	47.6	3.23%
Total HRA borrowing	48.7	(1.1)	47.6	3.23%
Total borrowing	**56.4**	**33.9**	**90.3**	**3.24%**

4.2.2 The weighted average maturity of the overall loans portfolio at 31 March 2020 is 8 years.

4.2.3 The Council's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the authority's long-term plans change being a secondary objective.

4.2.4 With short-term interest rates remaining much lower than long-term rates, it was considered to be more cost effective in the near term to use mainly short-term loans borrowed from other local authorities and also to continue using internal resources to meet the increase in the CFR. The movement in these loans is shown in table 3, above.

4.2.5 The Council's borrowing decisions are not predicated on any one outcome for interest rates and a balanced portfolio of short and long-term borrowing is in place to provide flexibility for future decisions.

5. INVESTMENT ACTIVITY 2019/20

5.1 The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2019/20, the Council's investment balance ranged between £21.3 and £53.3 million due to timing differences between income and expenditure. The Council had an average investment balance of £33.9m during 2019/20 generating a return, net of fees, of 2.38% over the year. The year-end investment position and the year-on-year change are shown in table 4 below. A list of the individual investments held at 31 March 2020 is shown in appendix 2 to this report.

Table 4: Investment Position

	31.3.19 Balance £m	2019/20 Movement £m	31.3.20 Balance £m
Banks & building societies (unsecured)	-	0.2	0.2
Covered bonds (secured)	3.5	-	3.5
Government (incl. local authorities)	10.0	(10.0)	-
Money Market Funds	13.2	(1.3)	11.9
Property Pooled Funds	5.5	(0.2)	5.3
Multi-Asset Income Funds	10.0	(1.2)	8.8
Total investments	**42.2**	**(12.5)**	**29.7**

5.2 Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

5.3 These objectives were broadly met during the year. Firstly, the amount of short term liquid cash for investments was reduced by using it for internal borrowing to support capital expenditure, as outlined previously in sections 3 and 4 of this report. This reduced the authority's exposure to credit risk. Secondly, the strategic investments in externally managed pooled funds, representing the authority's forecast minimum level of cash reserves and balances over the medium term, have been maintained. These pooled funds provided returns in excess of inflation and were generating some limited capital growth until the sudden economic impact of the pandemic affected their value.

5.4 In the relatively short period since the onset of the pandemic, the global economic fallout was sharp and large. 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, businesses and individuals. Volatility measured by the VIX index was almost as high as during the global financial crisis of 2008/09 and evidenced in plummeting equity prices and the widening of corporate bond spreads, very close to rivalling those twelve years ago.

5.5 The Council is invested in multi-asset and property funds. The falls in the capital values of the underlying assets were reflected in the fund valuations at 31 March 2020 with every fund registering negative capital returns over the 12 month period. A summary of the pooled funds value and performance to 31 March 2020 is shown in table 5 below.

Table 5 – Pooled Funds Summary

Fund	Value at 01/04/19	Value at 31/03/20	Valuation change	Valuation change	Dividend Return 2019/20	Dividend Return 2019/20
	£m	£m	£m	%	£'000	%
CCLA Local Authority Property Fund	5.52	5.32	(0.20)	-3.62%	238.6	4.37%
CCLA Diversified Income Fund	1.97	1.80	(0.17)	-8.63%	64.8	3.22%
Diversified Monthly Income Fund	3.52	2.96	(0.56)	-15.91%	173.9	4.89%
Investec) Diversified Income Fund	3.52	3.19	(0.33)	-9.38%	145.2	4.17%
UBS Multi-Asset Income Fund	0.98	0.86	(0.12)	-12.24%	45.9	4.74%
Total	**15.51**	**14.13**	**(1.38)**	**-8.90%**	**668.4**	**4.32%**

5.6 Table 5 above shows the unrealised capital value of the pooled fund investments fell by almost 9% or £1.38m over the year. However, these funds provided cash dividend returns to the General Fund of 4.32% or £668k, significantly above CPI inflation which remained below 2% over the year. In accordance with MHCLG guidance, the Council is able to defer the unrealised capital losses to the Pooled Investment Fund Adjustment Account until 2023/24 meaning there is no impact to the General Fund in 2019/20. Encouragingly there has been a partial recovery of almost £0.5m in the capital values of the pooled funds to the 31 July 2020.

5.7 Because the pooled funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives is regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a three to five-year period total returns will exceed cash interest rates.

5.8 The progression of risk and return metrics are shown in the extracts from Arlingclose's quarterly investment benchmarking in table 6 below.

Table 6: Investment Benchmarking – Treasury investments managed in-house only

	Credit Score	**Credit Rating**	**Bail-in Exposure**	**WAM (days)**	**Income Return**
FHDC					
31.03.2019	4.34	AA-	49%	75	0.85%
31.03.2020	**3.44**	**AA-**	**78%**	**11**	**0.77%**
Similar LAs	**3.95**	**AA-**	**59%**	**53**	**0.68%**
All LAs	**4.03**	**AA-**	**56%**	**20**	**0.64%**

5.9 The investment benchmarking, which is a snapshot at the end of each quarter and only covers in-house managed investments, demonstrates the council had a similar risk and return profile as both its peer group and the wider local authority population in 2019/20 (measured against other Arlingclose clients only).

6. FINANCIAL SUMMARY

6.1 The following table summarises the Council's net interest cost for its treasury management activities in 2019/20 and shows the outturn is significantly lower than the approved estimate, subject to audit:

Table 7: Net Interest Cost

	2018/19 Actual	2019/20 Estimate	**2019/20 Actual**	**2019/20 Variance Estimate to Actual**
	£'000	£'000	**£'000**	**£'000**
Interest Paid	*1,959*	1,912	**1,960**	**48**
Interest Received(net of fees)	*(730)*	(679)	**(807)**	**(128)**
Net Interest	*1,229*	1,233	**1,153**	**(80)**
Net Impact				
General Fund	*(287)*	(261)	**(389)**	**(128)**
H.R.A	*1,516*	1,494	**1,498**	**4**
Capitalised Interest	-	-	**44**	**44**
	1,229	1,233	**1,153**	**(80)**

6.2 The reduction in the net borrowing cost to the General Fund of £128k is mainly due to additional investment income received from the enhanced returns on the multi-asset income pooled funds.

6.3 The increase in interest paid of £48k is due to new loans taken up during the year to help meet capital expenditure incurred being met from prudential borrowing. The Council has changed its Accounting Policy from 2019/20 to allow it to capitalise interest incurred on qualifying capital projects that are expected to take a number of years to be delivered. For 2019/20 this has enabled the capitalisation of interest on borrowing to purchase the property from Cozumel Estates for the Otterpool Park development.

7. OTHER NON-TREASURY HOLDINGS AND ACTIVITY

7.1 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 it 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. The assets are summarised in the table below:

Table 8: Non-Treasury Holdings and Returns

Investment Type	Value 31/03/19 £m	Value 31/03/20 £m	Income 2020/21 £'000	Rate of Return %
Investment Property				
Otterpool Property	28.9	55.9	104	0.19
Offices	-	17.0	1,235	7.26
Commercial Land	1.1	0.8	-	-
Commercial Units	1.5	1.6	131	8.27
Agricultural Land	0.2	-	-	-
Assets Under Construction	0.1	0.6	-	-
Total Investment Property	**31.8**	**75.9**	**1,470**	**1.94**
Subsidiary Company				
Oportunitas loan	3.5	4.1	174	4.24
Oportunitas equity	1.3	1.3	0	0
Total Subsidiary	**4.8**	**5.4**	**174**	**3.20**
Total	**36.6**	**81.3**	**1,644**	**2.02**

7.2 Ordinarily the rate of return on non-treasury investment assets would be expected to be higher than that earned on treasury investments reflecting the additional risks to the council of holding such investments. This is demonstrated with the return on the commercial units and Oportunitas. However the return on the investment property portfolio for 2019/20 is significantly distorted because of the land acquisition taking place for the Otterpool Park project in particular. The council anticipates receiving rental streams from some of the property being acquired in the short to medium term.

8. COMPLIANCE WITH INVESTMENT LIMITS AND TREASURY INDICATORS

8.1 The Director of Corporate Services reports that, with one exception, the treasury management activities undertaken during 2019/20 complied fully with the CIPFA Code of Practice and the council's approved Treasury Management Strategy. The Council exceeded its advisory upper limit for its level of borrowing for loans due to mature within 12 months. This was due to additional borrowing taken up in late March 2020 to provide a liquidity buffer amid concerns at the time regarding the financial impact of the emerging Covid-19 crisis. Further information regarding compliance with the specific investment and Treasury Indicators is demonstrated in appendix 3 to this report.

9. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

9.1 Legal Officer's Comments (NM)
There are no significant legal implications as a result of the recommendations in this report which are not covered in the body of the report. Compliance with the CIPFA Code of Practice for Treasury Management in the Public Services and the CIPFA Prudential Code for Capital Finance in Local Authorities issued under the Local Government Act 2003 provides assurance that the council's investments are, and will continue to be, within its legal powers.

9.2 Finance Officer's Comments (LW)
This report has been prepared by the Finance Specialist Team and relevant financial implications are included within it.

9.3 Diversities and Equalities Implications
The report does not cover a new service or policy or a revision of either and therefore does not require an Equality Impact Assessment.

10. CONTACT OFFICER AND BACKGROUND DOCUMENTS

Councillors with any questions arising out of this report should contact the following officer prior to the meeting:

Lee Walker, Capital and Treasury Senior Specialist
Telephone: 01303 853593 Email: lee.walker@folkestone-hythe.gov.uk

The following background documents have been relied upon in the preparation of this report:

Arlingclose Ltd – Model Treasury Management Annual Report Template

Appendices:
Appendix 1 – Borrowing, loans held at 31 March 2020

Appendix 2 – Investments held at 31 March 2020
Appendix 3 – Compliance with specific investment and borrowing limits and Treasury Indicators

APPENDIX 1 – BORROWING, LOANS HELD AT 31 MARCH 2020

Lender	Loan No	Loan Type	Start Date	Maturity Date	Principal Outstanding 31/03/2020	Interest Rate
					£	%
Public Works Loan Board	430141	Fixed	09/11/1973	01/11/2033	3,899	11.38
Public Works Loan Board	480111	Fixed	14/10/1997	31/03/2023	1,000,000	6.63
Public Works Loan Board	488942	Fixed	12/08/2004	07/08/2034	2,000,000	4.80
Public Works Loan Board	492233	Fixed	28/09/2006	15/03/2054	2,000,000	4.05
Public Works Loan Board	493698	Fixed	10/08/2007	07/08/2055	2,500,000	4.55
Public Works Loan Board	493914	Fixed	10/09/2007	07/02/2053	2,500,000	4.55
Public Works Loan Board	494027	Fixed	31/10/2007	15/03/2044	2,000,000	4.65
Public Works Loan Board	494028	Fixed	31/10/2007	15/03/2045	2,000,000	4.65
Public Works Loan Board	494029	Fixed	31/10/2007	15/03/2046	2,141,190	4.65
Public Works Loan Board	500536	Fixed	28/03/2012	28/03/2023	4,000,000	2.56
Public Works Loan Board	500537	Fixed	28/03/2012	28/03/2031	4,010,000	3.26
Public Works Loan Board	500538	Fixed	28/03/2012	28/03/2028	4,000,000	3.08
Public Works Loan Board	500540	Fixed	28/03/2012	28/03/2025	4,000,000	2.82
Public Works Loan Board	500541	Fixed	28/03/2012	28/03/2029	4,000,000	3.15
Public Works Loan Board	500542	Fixed	28/03/2012	28/03/2030	4,000,000	3.21
Public Works Loan Board	500543	Fixed	28/03/2012	28/03/2027	4,000,000	3.01
Public Works Loan Board	500544	Fixed	28/03/2012	28/03/2021	1,300,000	2.21
Public Works Loan Board	500545	Fixed	28/03/2012	28/03/2022	1,300,000	2.40
Public Works Loan Board	500546	Fixed	28/03/2012	28/03/2024	4,000,000	2.70
Public Works Loan Board	500548	Fixed	28/03/2012	28/03/2026	4,000,000	2.92
Total - Public Works Loan Board					**54,755,089**	
London Borough of Havering		Fixed	03/02/2020	01/02/2021	5,000,000	1.00
London Borough of Barking and Dagenham		Fixed	31/01/2020	31/01/2022	5,000,000	1.60
Greater London Authority		Fixed	31/01/2020	29/01/2021	10,000,000	1.00
Castle Point Borough Council		Fixed	21/02/2020	15/04/2020	2,000,000	0.92
Cumbria County Council		Fixed	02/03/2020	24/04/2020	5,000,000	1.00
Milton Keynes Council		Fixed	25/03/2020	25/03/2021	5,000,000	1.65
Hertfordshire County Council		Fixed	30/03/2020	17/07/2020	3,000,000	2.00
Folkestone Town Council	n/a	Variable - 2 day call notice	Various May 2018	n/a	500,000	0.00
Total - All Borrowing					**90,255,089**	

APPENDIX 2 – INVESTMENTS HELD AT 31 MARCH 2020

Category and Counterparty	Amount or Value £	Terms	Interest Rate or Yield %
Banks & Building Societies (unsecured)			
NatWest - Business Reserve	245,000	No notice instant access	0.20
Covered Bonds (Secured)			
Royal Bank of Scotland	1,000,149	Covered floating rate note to 15/05/2020	0.98
Royal Bank of Scotland	2,500,602	Covered floating rate note to 15/05/2020	0.98
Money Market Funds			
Aberdeen Standard MMF	4,990,000	No notice instant access	0.73
Legal & General MMF	3,900,000	No notice instant access	0.71
Federated MMF	2,965,000	No notice instant access	0.73
Other Pooled Funds			
Commercial Property Funds			
CCLA Property Fund	5,320,414		4.18*
Multi-Asset Income Funds			
CCLA Diversified Income Fund	1,795,117		3.82
UBS Multi-Asset Income Fund	859,212		4.67
Aegon (formerly Kames) Diversified Monthly Income Fund	2,960,519		5.95
Investec Diversified Income Fund	3,189,358		4.48
Total Investments	**29,725,371**		2.87
* Net of Fees			

APPENDIX 3 – COMPLIANCE WITH SPECIFIC INVESTMENT AND TREASURY INDICATORS

Compliance with specific investment limits is demonstrated in table 1 below.

Table 1: Specific Investment Limits

	Maximum to 31.3.20	**31.3.20 Actual**	**2019/20 Limit**	**Complied**
Any single organisation, except UK Government	£5m	£5m	£5m each	✓
UK Central Government	£16.0m	nil	Unlimited	✓
Any group of funds under the same management	nil	nil	£5m per group	✓
Negotiable instruments held in a broker's nominee account	£3.5m	£3.5m	£10m per broker	✓
Foreign countries	nil	nil	£5m per country	✓
Registered Providers	nil	nil	£10m in total	✓
Unsecured investments with Building Societies	nil	nil	£5m in total	✓
Loans to unrated corporates	nil	nil	£5m in total	✓
Money Market Funds	£20.0m	£11.9m	£25m in total	✓
Any group of pooled funds under the same management	£7.5m	£7.1m	£10m per manager	✓
Real estate investment trusts	nil	nil	£10m in total	✓

Treasury Management Indicators

The council measures and manages its exposures to treasury management risks using the following indicators.

Security: The council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating 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.

	31.3.20 Actual	2019/20 Target	Complied
Portfolio average credit rating	AA-	A	✓

Liquidity: The council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period, without additional borrowing

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	31.3.20 Actual	2019/20 Target	Complied
Total cash available within 3 months	£15.6m	£5m	✓

Interest Rate Exposures: This indicator is set to control the council's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the amount of net principal borrowed is shown in table 3 below:

Table 3: Interest Rate Exposures

	31.3.20 Actual	2019/20 Limit	Complied
Upper limit on one-year revenue impact of a 1% **rise** in interest rates	£250,451	£265,000	✓
Upper limit on one-year revenue impact of a 1% **fall** in interest rates	£142,509	£215,000	✓

The impact of a change in interest rates is calculated on the assumption that maturing loans and investment will be replaced at current rates.

Maturity Structure of Borrowing: This indicator is set to control the council's exposure to refinancing risk. Compliance with the upper and lower limits on the maturity structure of fixed rate borrowing is shown in table 4 below:

Table 4: Maturity Structure of Borrowing

	31.3.20 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	35.2%	30%	0%	×
12 months and within 24 months	7.0%	40%	0%	✓
24 months and within 5 years	10.0%	50%	0%	✓
5 years and within 10 years	22.1%	80%	0%	✓
10 years and above	25.7%	100%	0%	✓

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

The Council exceeded its advisory upper limit for loans maturing under 12 months at 31 March 2020. The Council borrowed additional short term loans in late March

2020 to ensure it had sufficient liquidity to manage its cash flows amid concerns over the financial impact of the emerging Covid-19 crisis at the time. These concerns did not materialise as financial markets remained highly liquid and the Council received the majority of its anticipated local tax revenues on time.

Principal Sums Invested for Periods Longer than 364 days: The purpose of this indicator is to control the council's exposure to the risk of incurring losses by seeking early repayment of its investments. Compliance with the limits on the long-term principal sum invested to final maturities beyond the period end is shown in table 5 below:

Table 5: Principal Sums Invested for Periods Longer than 364 days

At 31.3.20	**2019/20**	**2020/21**	**2021/22**
Actual principal invested for longer than 364 days	-	-	-
Limit on principal invested beyond 364 days	£15m	£5m	£5m
Complied	✓	✓	✓

Although the council's investments in the pooled funds of £14.1m are accounted for as non-current (long term) assets, based on the intention to continue to hold them for longer than 12 months, they do not have a fixed maturity date and can be redeemed within a short notice period if required so do not feature in this indicator.