

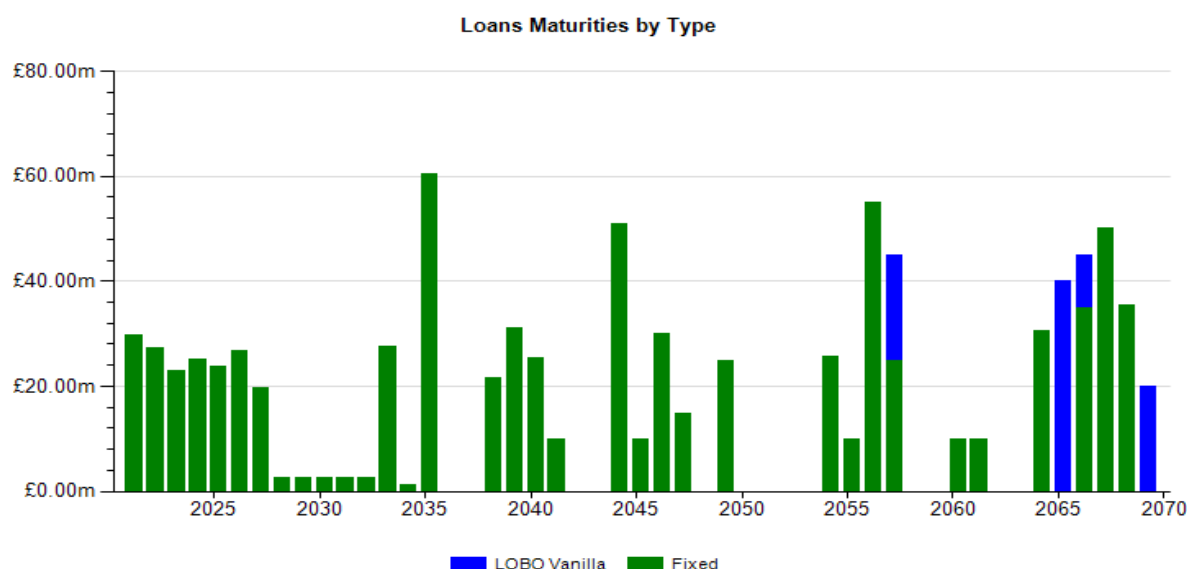
## Treasury Management Report for the month of July 2020

### 1. Borrowing

1.1 The total amount of debt outstanding at the end of July was £880m. The following table shows the borrowing analysed by lender.

	31/03/2020 Balance £m	2020-21 Movement £m	31/07/2020		
			Balance £m	Average Rate %	Value weighted Average Life (yrs)
Public Works Loan Board	473.28	0.00	473.28	4.97%	15.88
Banks (LOBO)	90.00	0.00	90.00	4.15%	43.55
Banks (Fixed Term)	320.55	-3.26	317.29	4.14%	35.26
	<b>883.83</b>	<b>-3.26</b>	<b>880.57</b>	<b>4.59%</b>	<b>25.69</b>
Temp borrowing	0.00	0.00	0.00		
<b>Total borrowing</b>	<b>883.83</b>	<b>-3.26</b>	<b>880.57</b>	<b>4.59%</b>	<b>25.69</b>

1.2 The maturity profile of KCC's outstanding debt at 31 July was as follows:



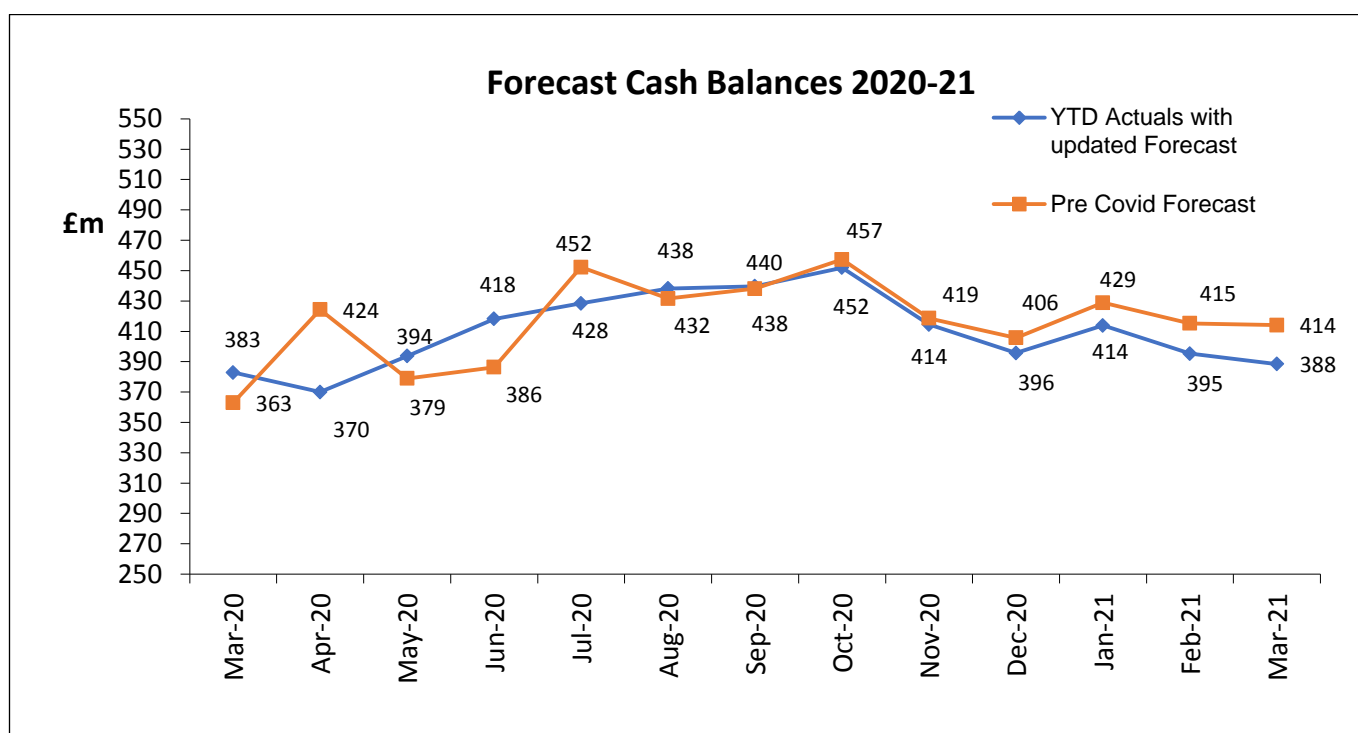
1.3 The following table shows the maturity profile of KCC's debt in 5-year tranches.

Loan Principal Maturity Period	Total Loan Principal Maturing	Balance of Loan Principal Outstanding
<b>Opening Balance 31/07/2020</b>		<b>£880,571,128</b>
<b>Maturity 0 -5 years</b>	<b>£106,452,623</b>	<b>£774,118,505</b>
<b>Maturity 5 -10 years</b>	<b>£77,140,446</b>	<b>£696,978,059</b>
<b>Maturity 10-15 years</b>	<b>£38,700,173</b>	<b>£658,277,886</b>
<b>Maturity 15 -20 years</b>	<b>£114,668,374</b>	<b>£543,609,512</b>
<b>Maturity 20 -25 years</b>	<b>£87,009,512</b>	<b>£456,600,000</b>
<b>Maturity 25 -30 years</b>	<b>£79,800,000</b>	<b>£376,800,000</b>
<b>Maturity 30 -35 years</b>	<b>£35,700,000</b>	<b>£341,100,000</b>
<b>Maturity 35 - 40 years</b>	<b>£100,000,000</b>	<b>£241,100,000</b>
<b>Maturity 40 -45 years</b>	<b>£50,600,000</b>	<b>£190,500,000</b>
<b>Maturity 45 -50 years</b>	<b>£190,500,000</b>	<b>£0</b>
<b>Total</b>	<b>£880,571,128</b>	

- 1.4 The Council's strategy continues to be to fund its capital expenditure from internal resources or short-term borrowing as well as consider longer term borrowing at advantageous points in interest rate cycles.
- 1.5 Total long-term debt managed by KCC includes £32.2m pre-LGR debt managed by KCC on behalf of Medway Council.
- 1.6 The consultation on the future direction of the PWLB closed on 31 July and we submitted a response which expressed support for the changes proposed and that the purpose of the PWLB should be refocused on supporting investment in service and regeneration projects. I also expressed concern regarding the terminology used and the need to more closely define debt for yield activity. It is anticipated that new lending terms will be implemented in the latter part of this calendar year.

## 2. Cash Balances

- 2.1 During the month of July, the value of cash under management increased by £10m to £428m. Forecast cash balances are as follows. The actual balances at the end of April and July were lower than anticipated reflecting higher outflows mainly related to Covid 19 spend.



## 3. Investments

- 3.1 At the end of July, the value of KCC's investments was £425m of which £162m, 38%, was invested in strategic pooled funds.
- 3.2 Details of the investments at the month end as well as the movement in 2020-21 are shown in the following table. A detailed listing of investments at 31 July is at appendix 2.

	31-March-20	2020-21	31-July-20		
	Balance	Movement	Balance	Rate of Return	Average Credit Rating
	£m	£m	£m	%	
Bank Call Accounts	30.0	-11.7	18.3	0.01	A+
Money Market Funds	56.7	+33.0	89.7	0.18	AA-
DMO Deposits	0.00	+27.0	27.0	0.01	AA
Local Authorities	50.0	-4.0	46.0	0.30	AA-
Covered Bonds	84.9	-5.1	79.8	0.69	AAA
Icelandic Recoveries o/s	0.4	-0.2	0.2		
Equity	2.1	0	2.1		
<b>Internally managed cash</b>	<b>224.1</b>	<b>+39.0</b>	<b>263.1</b>	<b>0.33</b>	<b>AA</b>
<b>Strategic Pooled Funds</b>	<b>157.3</b>	<b>+4.5</b>	<b>161.8</b>	<b>4.19</b>	
<b>Total</b>	<b>381.4</b>	<b>+43.5</b>	<b>424.9</b>	<b>1.81</b>	

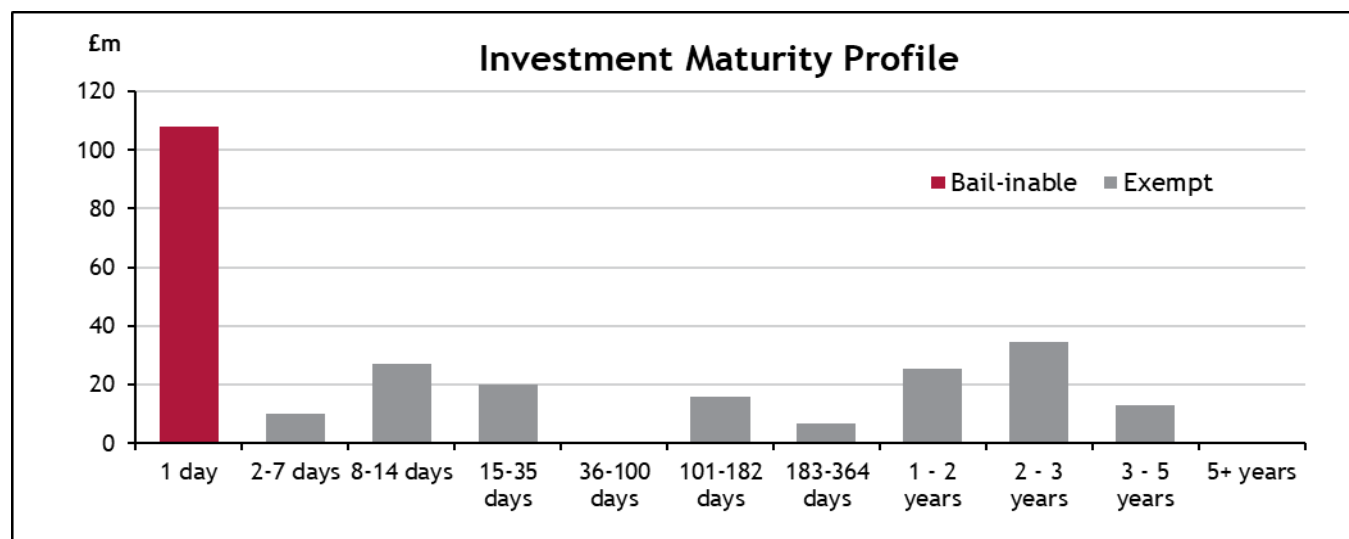
### 3.3 Internally managed investments

3.3.1 The rate of return on investments held at month end was 0.33% vs the target return 7-day LIBID of -0.063%. Returns are reducing although higher rates continue to be paid on the covered bonds.

3.3.2 With effect from 31 March the Council has provided a £10m loan facility to a housing association. We are receiving interest on the full £10m undrawn balance with the first payment received in July.

3.3.3 In July we received the final dividend from the liquidation of Heritable Bank. No further recoveries of the monies deposited with the Icelandic banks are anticipated and the final recovery now amounts to £52.815m, some £822k more than was deposited and interest due. The surplus is mainly due to a favourable exchange rate applying to the payment of Icelandic Kroner.

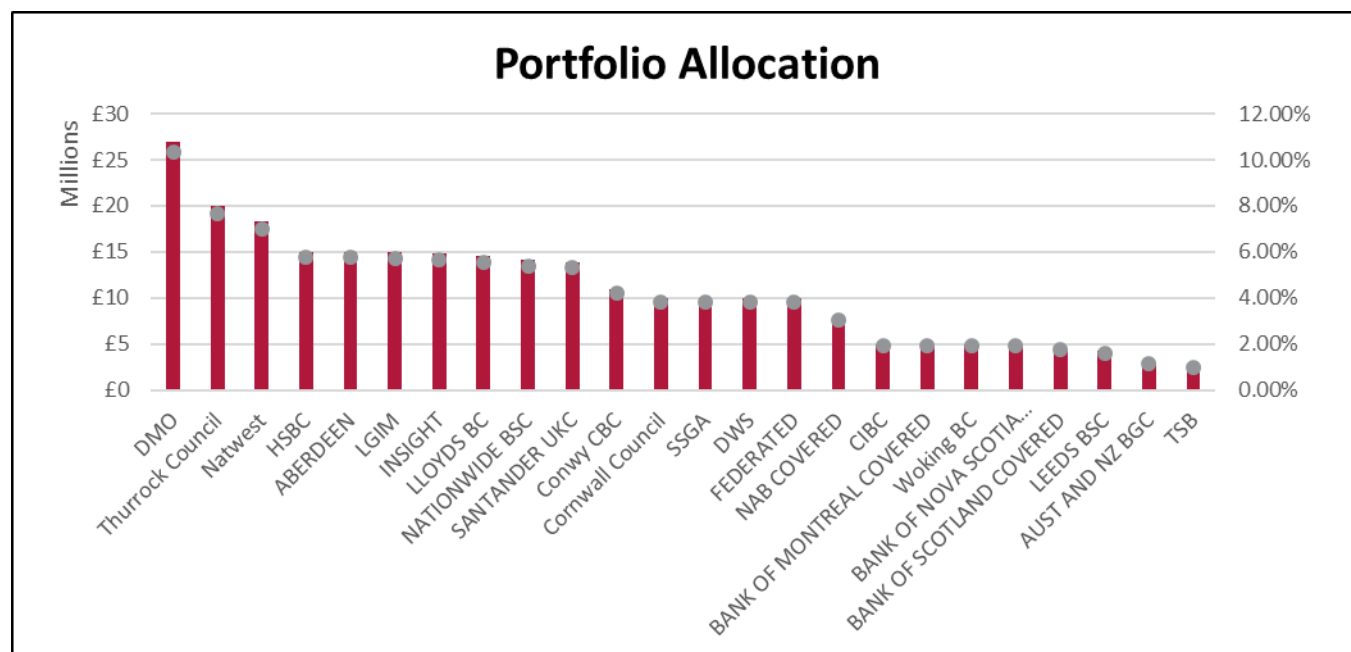
3.3.4 The maturity profile of KCC's investments is shown in the following chart.



Duration	Bail-inable		Exempt	
1 day	£	107.9	£	-
2-7 days	£	-	£	10.0
8-14 days	£	-	£	27.0
15-35 days	£	-	£	20.0
36-100 days	£	-	£	-
101-182 days	£	-	£	16.0
183-364 days	£	-	£	6.9
1 - 2 years	£	-	£	25.5
2 - 3 years	£	-	£	34.3

	3 - 5 years	£ -	£ 13.1
	5+ years	£ -	£ -
<b>Total Investments</b>		£ 107.9	£ 152.8

3.3.5 The Fund's exposure to its counterparties is as per the following graph. This shows the amount invested in £m and the percentage each investment represents of the total portfolio.



Counterparty	Total Principal	
DMO	£27,000,000	10.36%
Thurrock Council	£20,000,000	7.67%
Natwest	£18,250,000	7.00%
HSBC	£14,994,234	5.75%
ABERDEEN	£14,992,215	5.75%
LGIM	£14,957,390	5.74%
INSIGHT	£14,772,921	5.67%
LLOYDS BC	£14,509,423	5.57%
NATIONWIDE BSC	£14,085,624	5.40%
SANTANDER UKC	£13,888,768	5.33%
Conwy CBC	£11,000,000	4.22%
Cornwall Council	£10,000,000	3.84%
SSGA	£9,991,678	3.83%
DWS	£9,982,306	3.83%
FEDERATED	£9,981,720	3.83%
NAB COVERED	£7,979,830	3.06%
CIBC	£5,018,348	1.92%
BANK OF MONTREAL COVERED	£5,003,686	1.92%
Woking BC	£5,000,000	1.92%
BANK OF NOVA SCOTIA COVERED	£4,993,773	1.92%
BANK OF SCOTLAND COVERED	£4,600,813	1.76%
LEEDS BSC	£4,204,590	1.61%
AUST AND NZ BGC	£3,000,000	1.15%
TSB	£2,503,153	0.96%
<b>Grand Total</b>	<b>£260,710,473</b>	

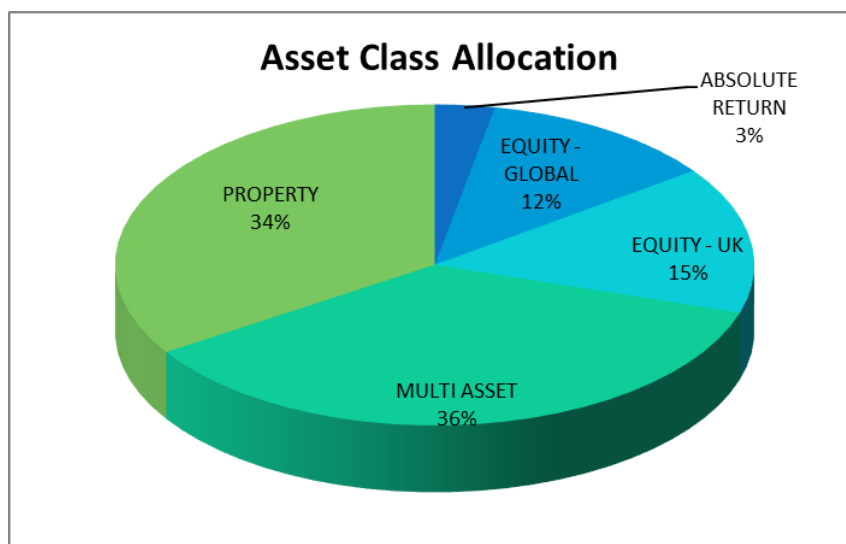
### 3.3.5 Credit Score matrix

The Council's overall credit scores for its internally managed cash are detailed in the following table.

	Credit Rating	Credit Risk Score
Value Weighted Average	AA	3.1
Time Weighted Average	AAA	1.1

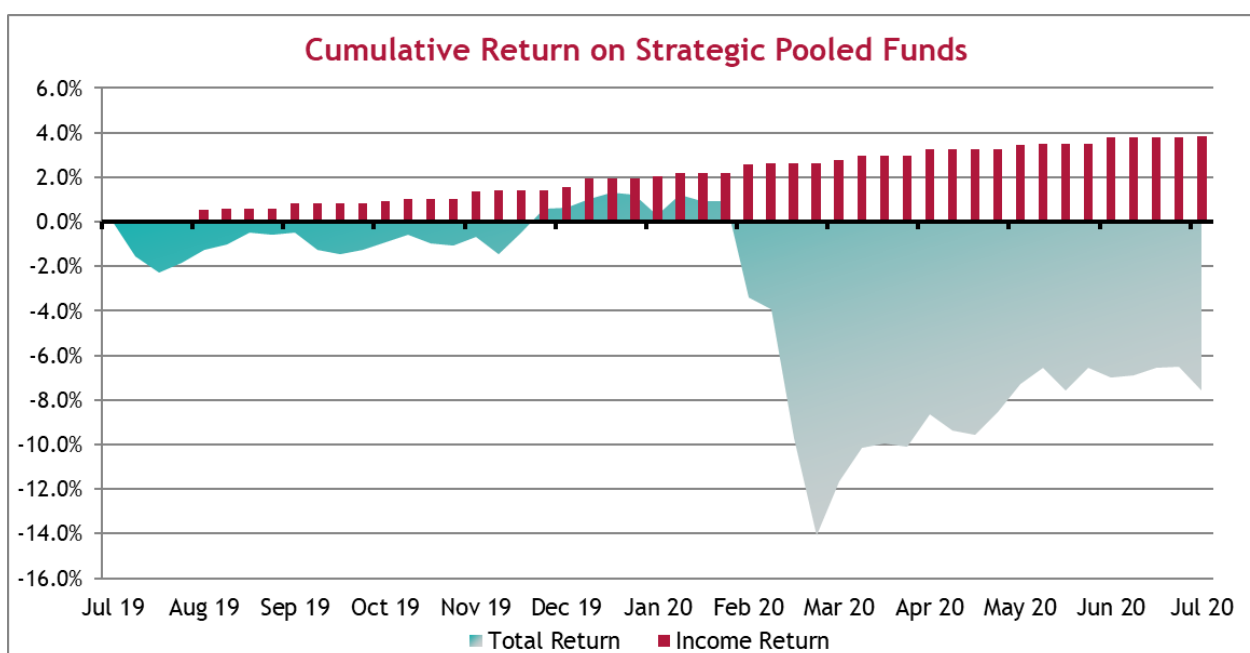
**4. Strategic Pooled Funds**

4.1 A breakdown of the strategic pooled funds by asset class is shown in the following chart.



4.2 During the 4 months to the end of July the market value of the pooled funds rose by 2.85% as all the funds other than the property fund made gains. The CCLA property fund remains gated.

4.3 Since the end of March the funds have achieved an income return of 1.23%. The following chart tracks the returns earned on the pooled funds over the 12 months to end July 2020.



**5. Revenue outturn**

5.1 With assistance from Arlingclose officers are continuing to monitor the income returns on KCC's investments especially the strategic pooled funds. Our view continues to be that during 2020-21 income from the pooled funds will be lower by between 20 and 50% however still higher than the returns available on cash investments.

## 6. Arlingclose benchmarking

6.1 Arlingclose benchmark the performance of their clients each quarter and the following chart summarises the results for June 2020.



### Investment Benchmarking 30 June 2020

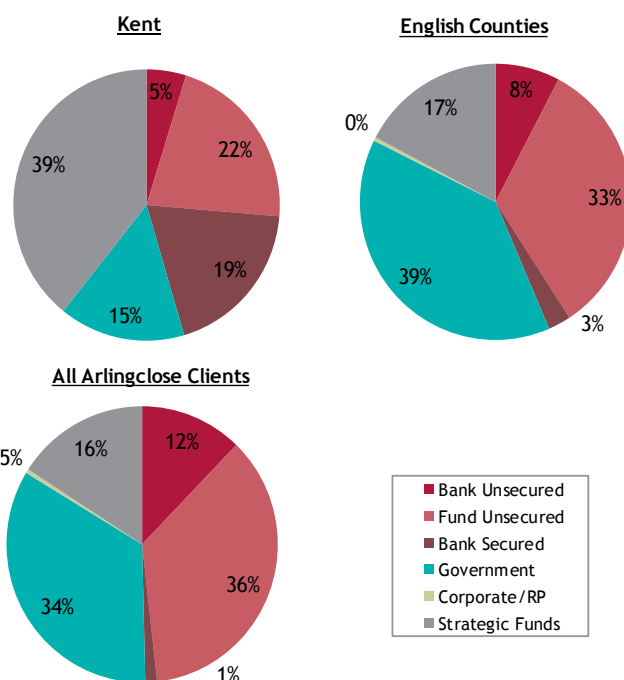
	Kent	10 English Counties Average	125 LAs Average
Internal Investments	£253.4m	£216.2m	£66.2m
Cash Plus & Short Bond Funds	£0.0m	£1.9m	£2.1m
Strategic Pooled Funds	£163.9m	£60.0m	£11.2m
<b>TOTAL INVESTMENTS</b>	<b>£417.4m</b>	<b>£278.1m</b>	<b>£79.5m</b>

Security			
Average Credit Score	3.13	3.93	4.10
Average Credit Rating	AA	AA-	AA-
Average Credit Score (time-weighted)	1.18	3.68	3.98
Average Credit Rating (time-weighted)	AAA	AA-	AA-
Number of Counterparties / Funds	35	27	13
Proportion Exposed to Bail-in	43%	47%	59%

Liquidity			
Proportion Available within 7 days	29%	46%	54%
Proportion Available within 100 days	38%	56%	72%
Average Days to Maturity	286	250	18

Market Risks			
Average Days to Next Rate Reset	115	237	47
Strategic Fund Volatility	10.8%	7.0%	7.7%

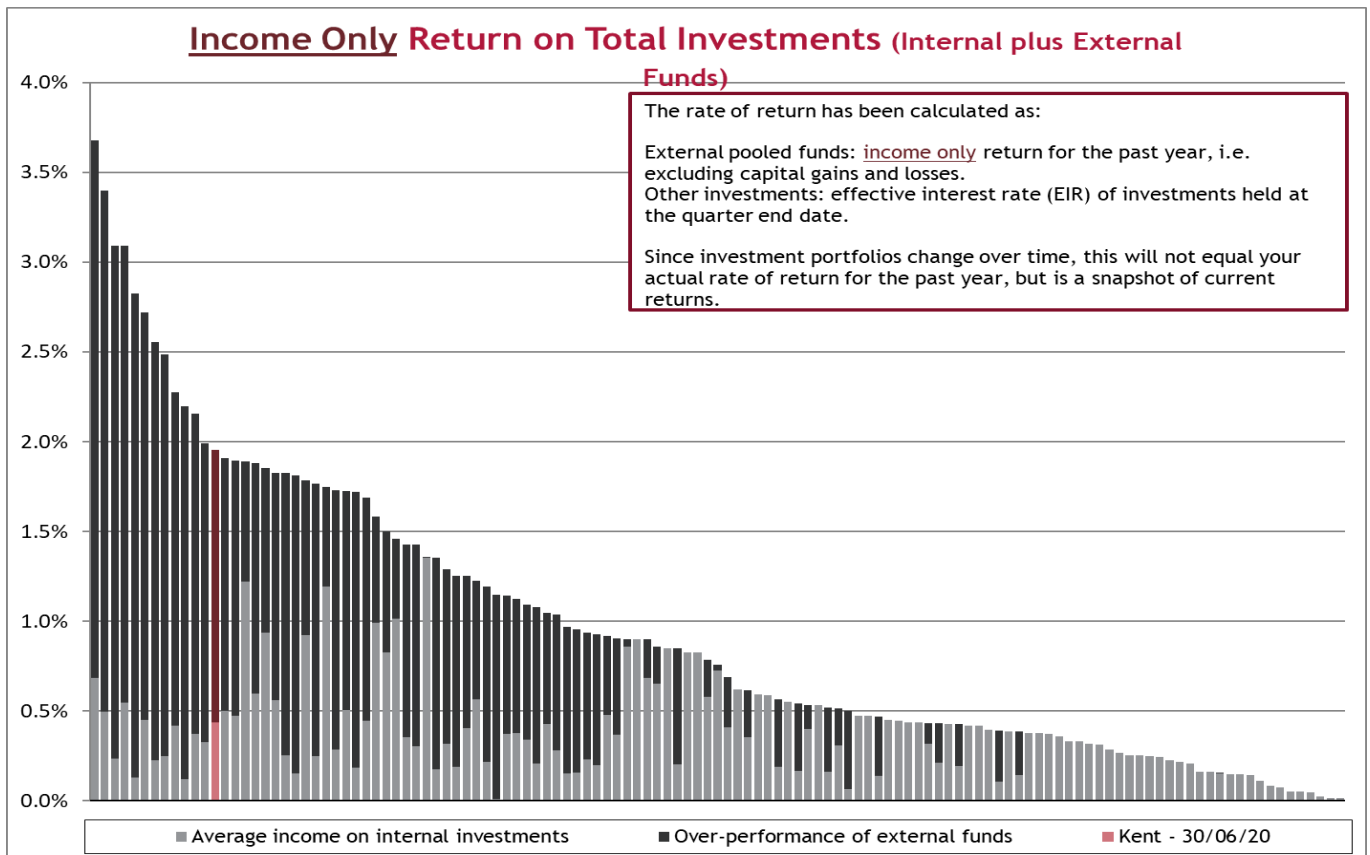
Yield			
Internal Investment Return	0.44%	0.64%	0.38%
Cash Plus & Short Bond Fund - Total Return	-	1.12%	0.97%
Strategic Funds - Total Return	-5.42%	-4.40%	-4.12%
<b>Total Investments - Total Return</b>	<b>-1.86%</b>	<b>-0.27%</b>	<b>-0.30%</b>
All External Funds - Income Only Return	4.30%	3.90%	3.57%
All External Funds - Capital Gains/Losses	-9.72%	-7.67%	-7.05%
<b>Total Investments - Income Only Return</b>	<b>1.95%</b>	<b>1.28%</b>	<b>0.96%</b>



#### Notes

- Unless otherwise stated, all measures relate to internally managed investments only, i.e. excluding external pooled funds.
- Averages within a portfolio are weighted by size of investment, but averages across authorities are not weighted.
- Credit scores are calculated as AAA = 1, AA+ = 2, etc.
- Volatility is the standard deviation of weekly total returns, annualised.

6.2 The following chart compares the income return achieved by all the Arlingclose clients to the end of June and this shows that the Kent return of 1.95% for the last 12 months is one of the higher returns.



**Alison Mings**  
**Treasury and Investments Manager**  
**20 August 2020**