

Treasury Management Report for July 2021

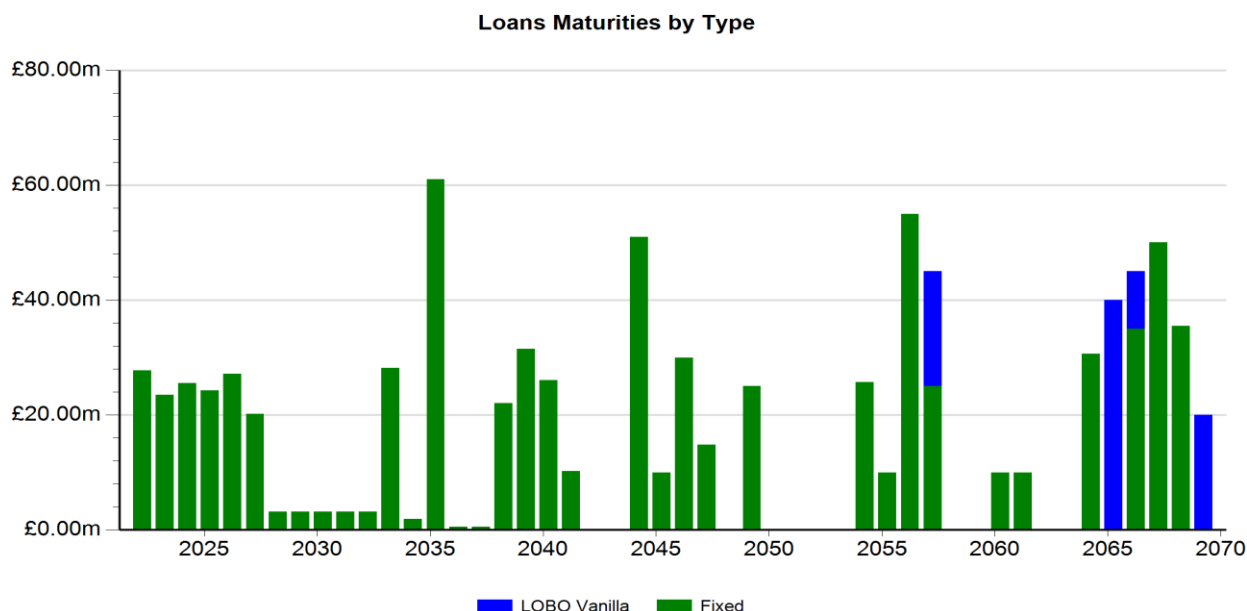
The following is a summary of the Council's treasury management activity during July 2021 and year to date.

1. Borrowing

1.1 The total amount of debt outstanding at the end of July was £851.4m down by £2.3m since the end of March 2021 as debt was repaid and no new borrowing was undertaken. The following table shows the borrowing analysed by lender.

	31/03/2021	2021-22	31/07/2021	31/07/2021	31/07/2021
	Balance	Movement	Balance	Average Rate	Value Weighted Average Life
	£m	£m	£m	%	yrs
Public Works Loan Board	449.61	0.00	449.61	4.83%	15.62
Banks (LOBO)	90.00	0.00	90.00	4.15%	42.55
Banks (Fixed Term)	291.80	0.00	291.80	4.40%	37.17
Streetlighting project	22.32	-2.29	20.03	1.43%	10.65
Total borrowing	853.73	-2.29	851.44	4.53%	25.73

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



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

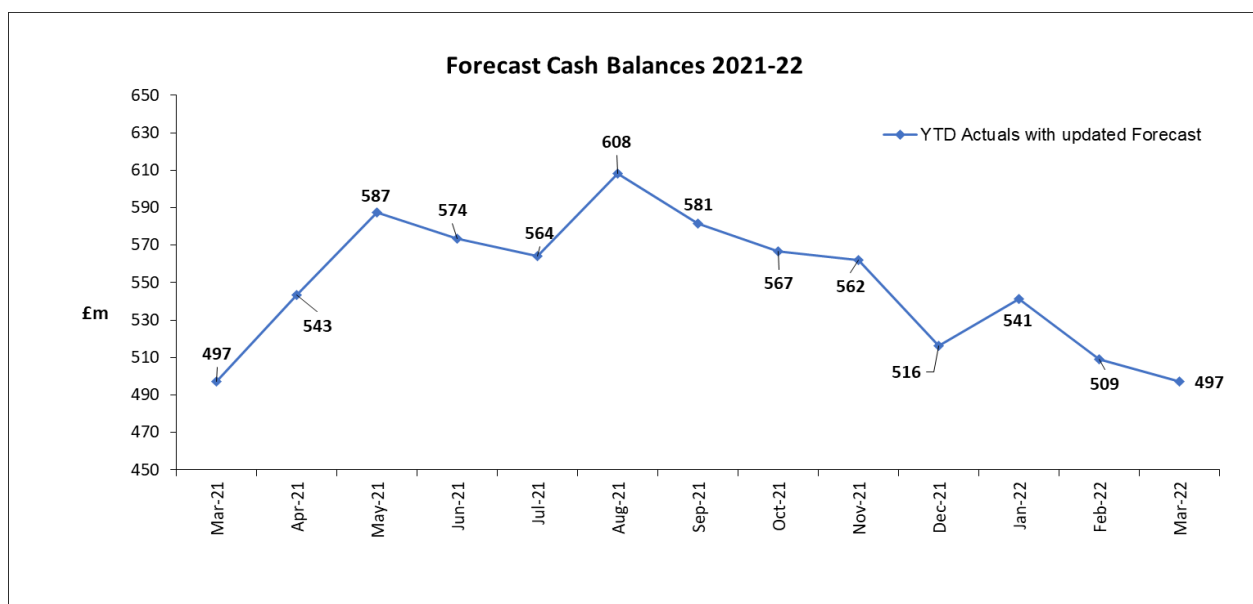
Loan Principal Maturity Period	Total Loan Principal Maturing	Balance of Loan Principal Outstanding
Opening Balance 31/07/2021		£851,437,598
Maturity 0 - 5 years	£127,070,157	£724,367,441
Maturity 5 - 10 years	£3,692	£724,363,750

Maturity 10 - 15 years	£118,806,192	£605,557,558
Maturity 15 - 20 years	£97,957,558	£507,600,000
Maturity 20 - 25 years	£105,800,000	£401,800,000
Maturity 25 - 30 years	£25,000,000	£376,800,000
Maturity 30 - 35 years	£135,700,000	£241,100,000
Maturity 35 - 40 years	£20,000,000	£221,100,000
Maturity 40 - 45 years	£165,600,000	£55,500,000
Maturity 45 - 50 years	£55,500,000	£0
Total	£851,437,598	

- 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 £30.9m pre-LGR debt managed by KCC on behalf of Medway Council.

2. Cash Balances

- 2.1 At the end of July, the value of cash under management was £564m, a decrease of £10m from the end of June including grant monies and other receipts. Forecast cash balances are as follows:



3. Investments

- 3.1 At the end of July, the value of KCC's investments was £565m of which £179m, 32%, was invested in strategic pooled funds.
- 3.2 Details of the investments at the month end as well as the movement in 2021-22 are shown in the following table. A detailed listing of investments at 31 July is at appendix A.

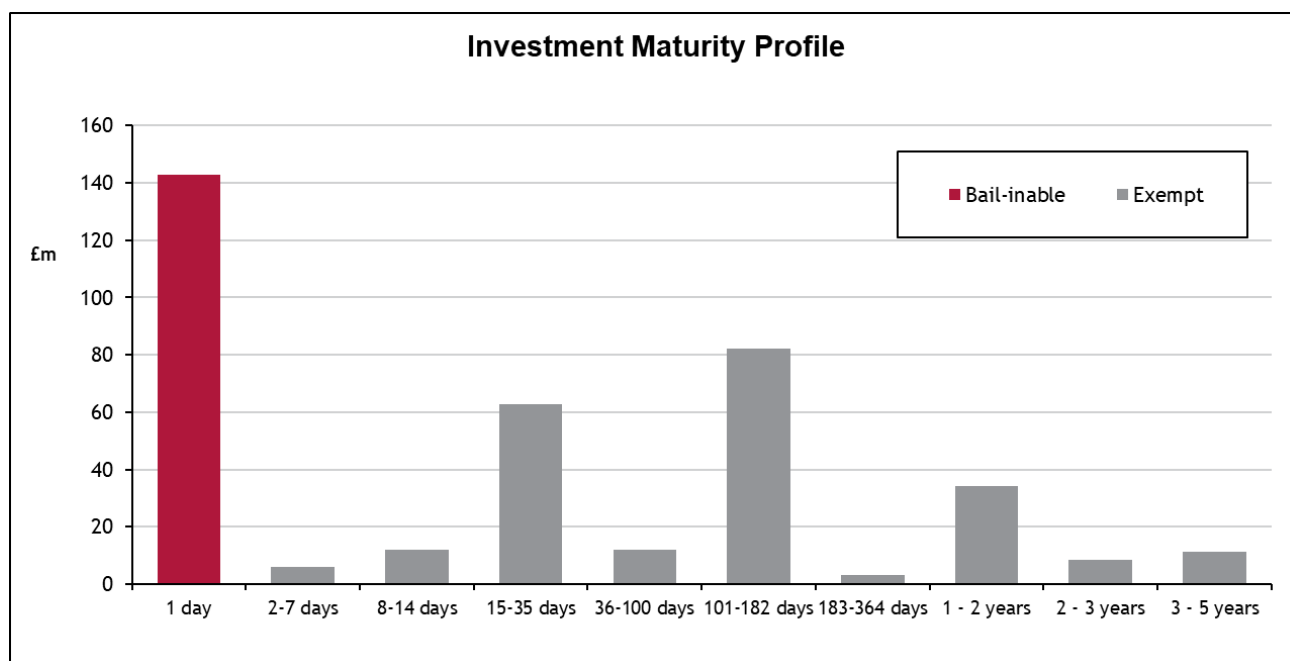
	31-Mar-21	2021-22	31-Jul-21	31-Jul-21	31-Jul-21
	Balance	Movement	Balance	Rate of Return	Average Credit Rating
	£m	£m	£m	%	
Bank Call Accounts	45.0	-9.4	35.6	0.06	A+
Money Market Funds	135.0	-27.9	107.1	0.00	AA-
Local Authorities	51.0	-37.0	14.0	0.22	A+
Covered Bonds	79.7	20.6	100.2	0.68	AAA
DMO Deposits incl Tbills	9.4	108.6	118.0	0.01	AA
No Use Empty Loans	5.6	3.5	9.1	1.50	
Equity	2.3	-0.2	2.1		
Internally managed cash	327.9	58.2	386.1	0.16	AA
Strategic Pooled Funds	174.1	4.8	178.9	4.40	
Total	502.0	63.0	565.0	1.53	

3.3 Internally managed investments

3.3.1 During July most of the surplus monies received have been invested with the Debt Management Office reflecting slightly better interest rates while ensuring security of the funds. We continue to hold significant balances in money market funds and bank reserve accounts which have same day availability, given the ongoing uncertainty about the impact of Covid on the Council's income and services. We also added to our covered bond portfolio which is tradeable and has the benefit of collateral cover.

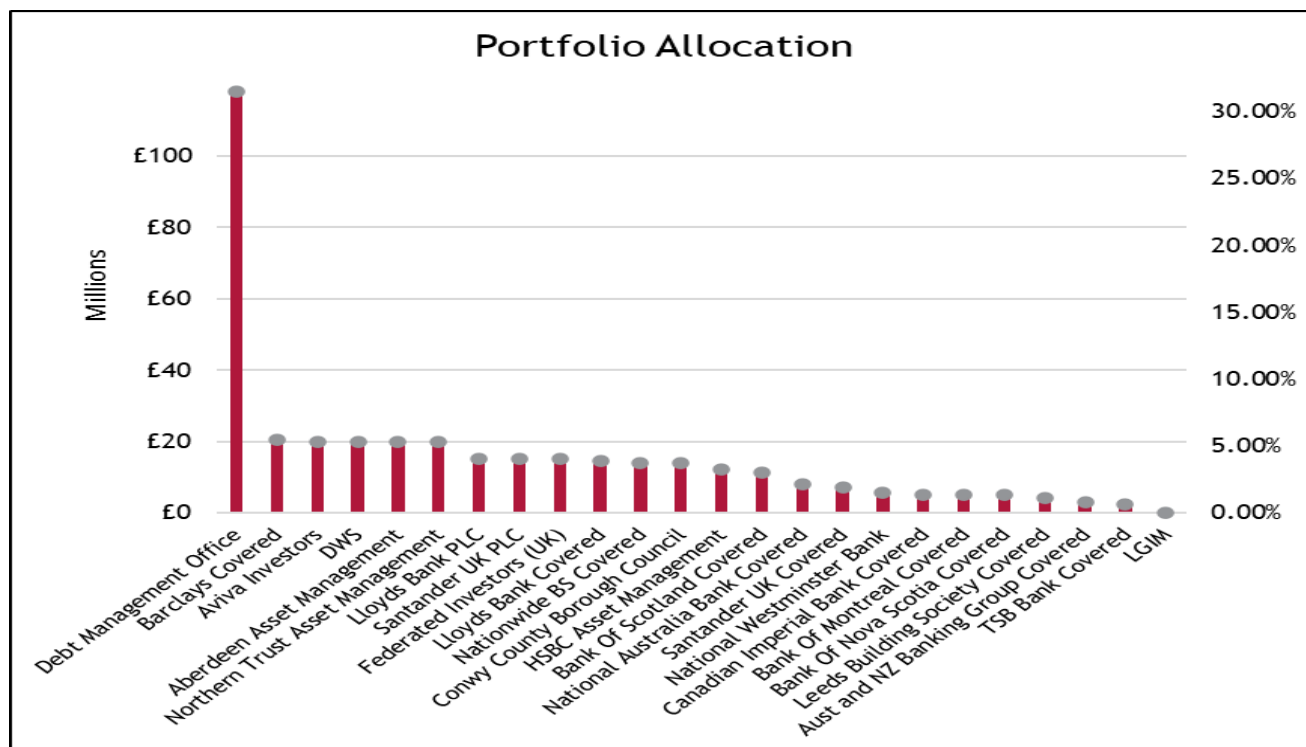
3.3.2 The rate of return on investments held at month end was 0.16% vs the target return 7-day LIBID of -0.082%. Interest rates on the cash investments are close to zero while higher rates continue to be paid on the covered bonds though these are falling.

3.3.3 The maturity profile of KCC's investments is shown in the following chart and table.



Duration	Bail-inable	Exempt
1 day	£ 142.7	£ -
2-7 days	£ -	£ 6.1
8-14 days	£ -	£ 12.0
15-35 days	£ -	£ 62.9
36-100 days	£ -	£ 12.0
101-182 days	£ -	£ 82.0
183-364 days	£ -	£ 3.0
1 - 2 years	£ -	£ 34.3
2 - 3 years	£ -	£ 8.5
3 - 5 years	£ -	£ 11.4
Total Investments	£ 142.7	£ 232.2

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



Counterparty	Total Principal	
	£	
Debt Management Office	118,025,563	31.48%
Barclays Covered	20,530,604	5.48%
Aviva Investors	19,997,274	5.33%
DWS	19,996,022	5.33%
Aberdeen Asset Management	19,995,712	5.33%
Northern Trust Asset Management	19,929,271	5.32%
Lloyds Bank PLC	15,000,000	4.00%
Santander UK PLC	15,000,000	4.00%

Federated Investors (UK)	14,996,499	4.00%
Lloyds Bank Covered	14,505,997	3.87%
Nationwide Building Society Covered	14,080,469	3.76%
Conwy County Borough Council	14,000,000	3.73%
HSBC Asset Management	12,150,554	3.24%
Bank Of Scotland Covered	11,403,473	3.04%
National Australia Bank Covered	7,989,991	2.13%
Santander UK Covered	7,003,160	1.87%
National Westminster Bank	5,625,000	1.50%
Canadian Imperial Bank Covered	5,006,083	1.34%
Bank Of Montreal Covered	5,002,347	1.33%
Bank Of Nova Scotia Covered	4,996,900	1.33%
Leeds Building Society Covered	4,202,931	1.12%
Aust And NZ Banking Group Covered	3,000,000	0.80%
TSB Bank Covered	2,502,309	0.67%
Legal & General Investment Management	727	0.00%
	374,940,884	

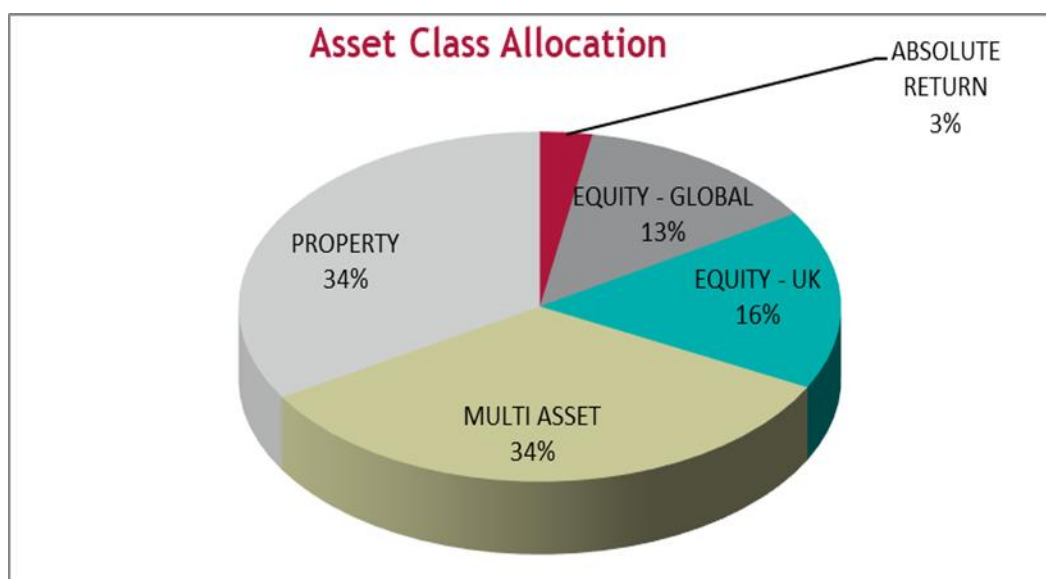
3.3.5 Credit Score matrix

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	3.4
Time Weighted Average	AA+	1.6

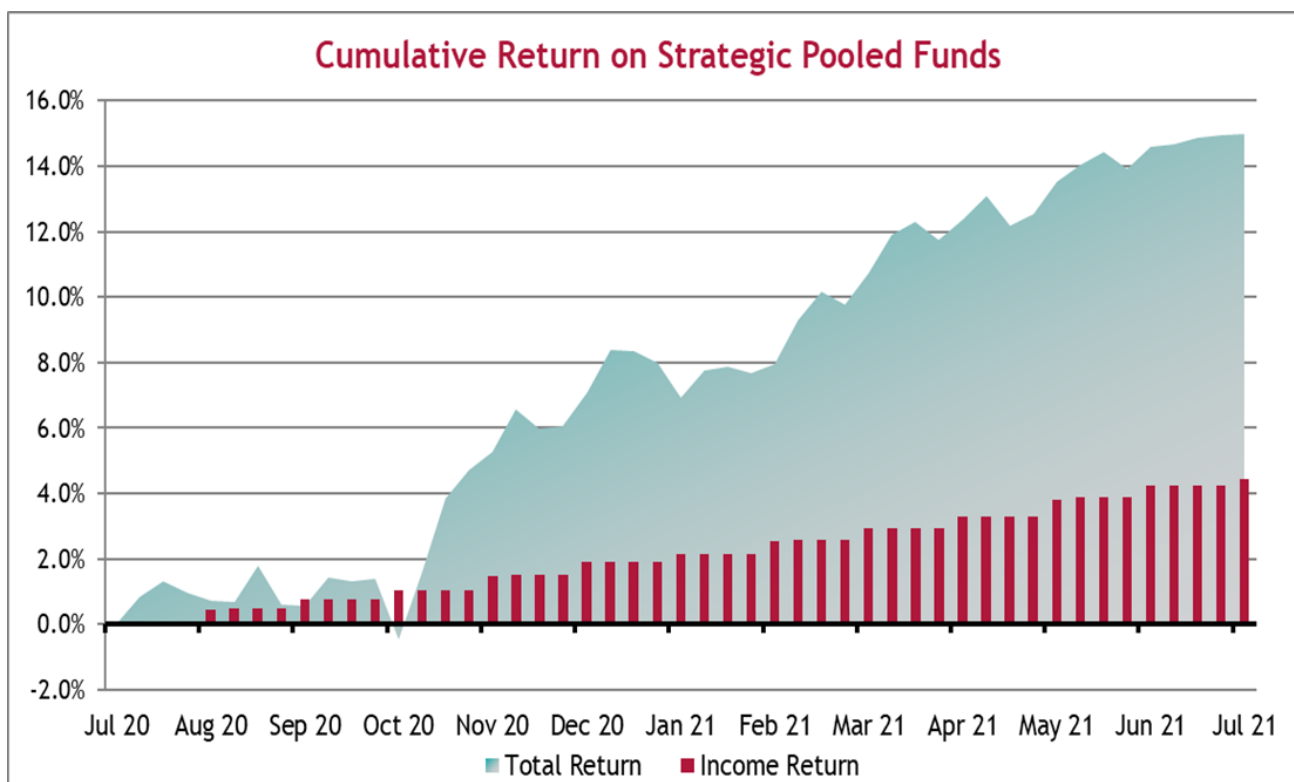
4. Strategic Pooled Funds

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

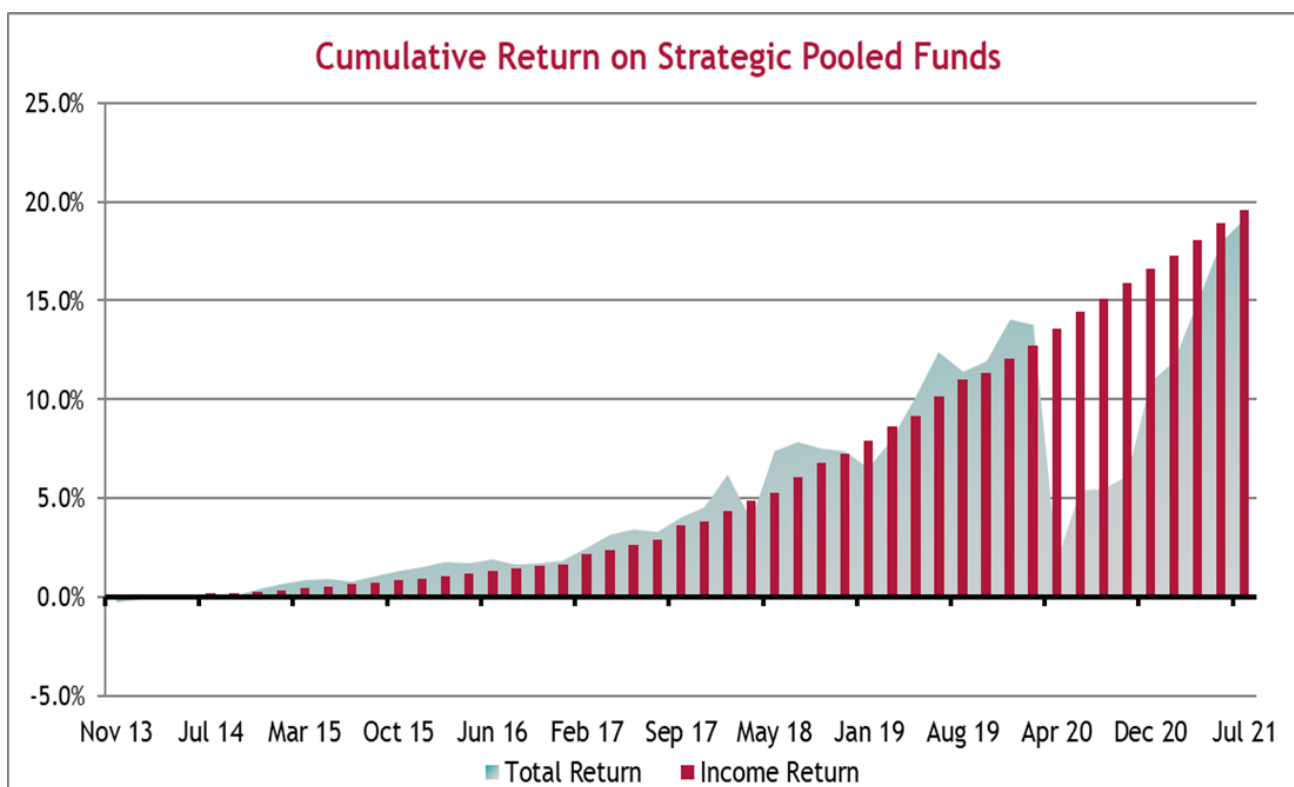


4.2 **Performance YTD:** During July financial markets continued to rise and the value of our holdings increased in value to £178.9m at the end of the month, a gain of £4.8m since the end

of March 2021. The following chart tracks the returns earned on the pooled funds over the 12 months to end July 2021.

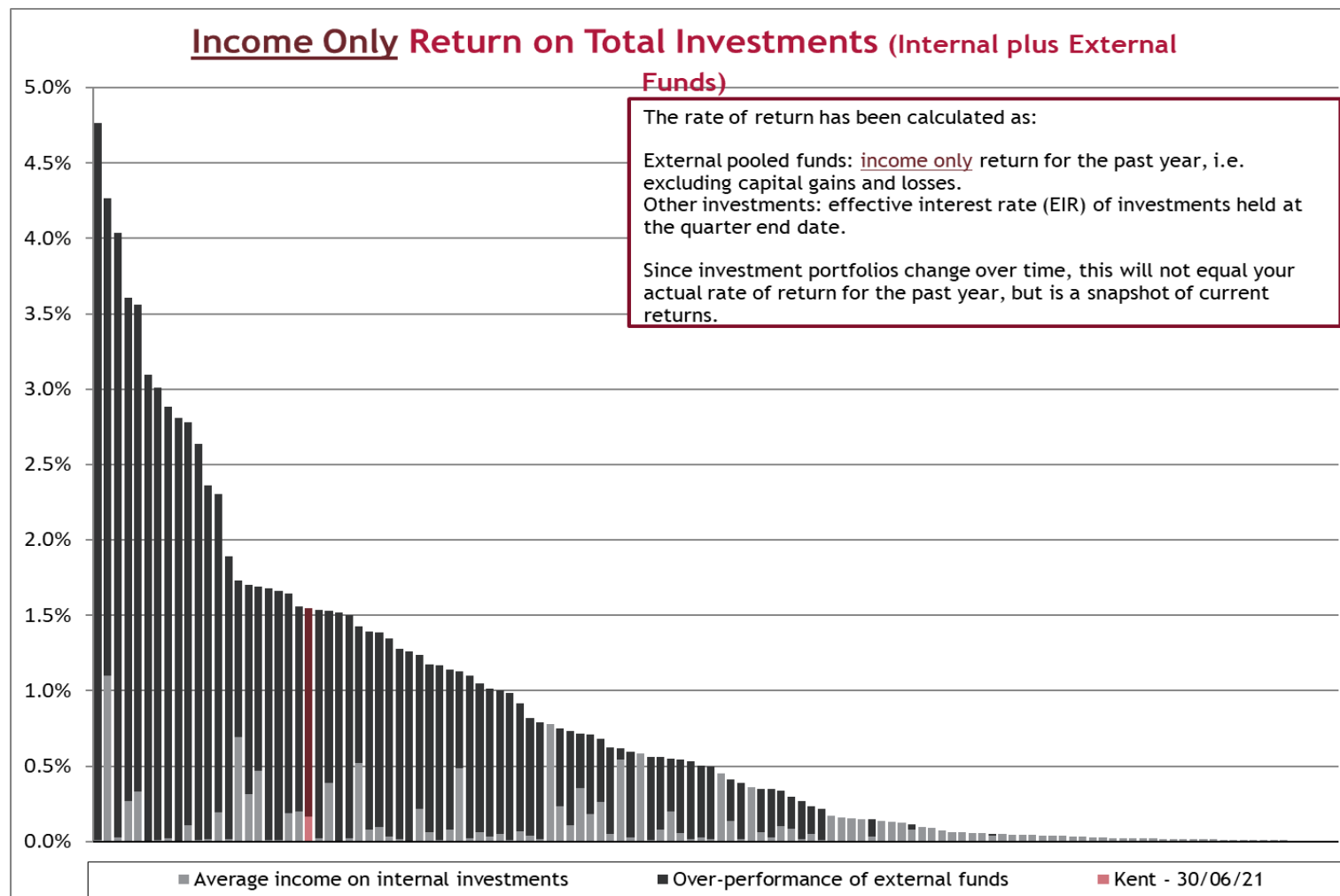


4.3 Performance since inception: KCC initially invested in pooled funds in 2013. By the end of July 2021 the pooled funds had achieved an income return of £31.6m, 15.43% (4.22% pa) while the fall in the capital value of the portfolio had reduced to 0.32%. We are long term investors and invested for income to support the Council's services. The following chart tracks the returns earned on the pooled funds over the period from inception.



5. Arlingclose benchmarking – June quarter 2021

5.1 Arlingclose benchmark the performance of their clients each quarter and the following chart compares the income return achieved by all the Arlingclose clients.



5.2 The following summarises the results of Arlingclose clients for June 2021



Investment Benchmarking 30 June 2021

	Kent	9 English Counties Average	124 LAs Average
Internal Investments	£385.3m	£371.0m	£83.4m
Cash Plus & Short Bond Funds	£0.0m	£2.2m	£2.7m
Strategic Pooled Funds	£178.6m	£65.4m	£11.9m
TOTAL INVESTMENTS	£563.9m	£438.6m	£98.0m

Security

Average Credit Score	3.39	4.23	4.64
Average Credit Rating	AA	AA-	A+
Average Credit Score (time-weighted)	1.59	4.07	4.51
Average Credit Rating (time-weighted)	AA+	AA-	A+
Number of Counterparties / Funds	36	29	13
Proportion Exposed to Bail-in	31%	45%	67%

Liquidity

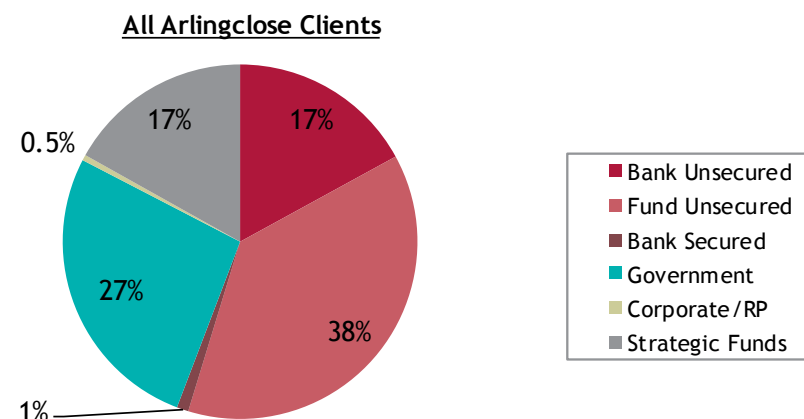
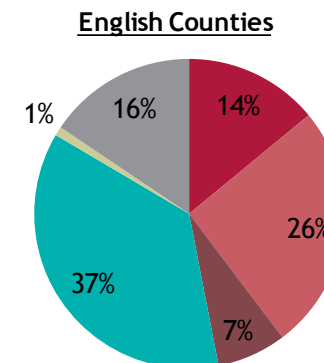
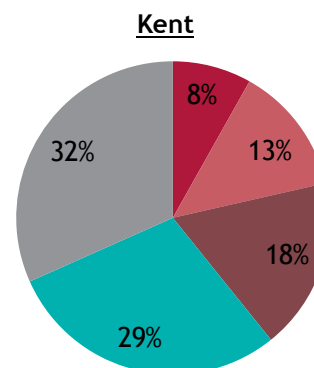
Proportion Available within 7 days	28%	41%	56%
Proportion Available within 100 days	43%	51%	71%
Average Days to Maturity	160	1,101	12

Market Risks

Average Days to Next Rate Reset	98	1,071	50
Strategic Fund Volatility	5.4%	3.4%	3.8%

Yield

Internal Investment Return	0.16%	0.30%	0.11%
Cash Plus Funds - Income Return	-	0.79%	0.37%
Strategic Funds - Income Return	4.52%	4.37%	4.28%
Total Investments - Income Return	1.54%	0.94%	0.82%
Cash Plus Funds - Capital Gain/Loss	-	0.41%	0.83%
Strategic Funds - Capital Gain/Loss	8.98%	7.55%	7.28%
Total Investments - Total Return	4.39%	2.22%	2.13%



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. Revenue outturn

- 6.1 Forecast net debt costs remain in line with budget with lower investment income offset by savings on borrowing costs.
- 6.2 While we are holding substantial investment balances the returns on our cash deposits are expected to remain close to zero for the foreseeable future. Income from the pooled funds is forecast to be close to budget reflecting improved levels of dividends paid by the underlying investments.

Alison Mings
Acting Business Partner – Kent Pension Fund
23 August 2021

Investments as at 31 July 2021

1. Internally Managed Investments

1.1 Term deposits, Call accounts and Money Market Funds

Instrument Type	Counterparty	Principal Amount £	Interest Rate	End Date
Fixed Deposits	Conwy County Borough Council	3,000,000	0.05%	21/12/21
Fixed Deposits	Conwy County Borough Council	3,000,000	0.05%	04/01/22
Fixed Deposits	Conwy County Borough Council	5,000,000	0.05%	06/01/22
Fixed Deposits	Conwy County Borough Council	3,000,000	0.03%	31/01/22
Total	Local Authority Deposits	14,000,000		
Tbill	DMO	6,999,302	0.020%	08/11/21
Tbill	DMO	19,997,507	0.025%	22/11/21
Tbill	DMO	9,998,754	0.025%	20/12/21
Total	Tbills	36,995,563		
Fixed Deposits	DMADF (Debt Management Account Deposit Facility)	9,900,000	0.010%	10/08/21
Fixed Deposits	DMADF (Debt Management Account Deposit Facility)	2,130,000	0.010%	10/08/21
Fixed Deposits	DMADF (Debt Management Account Deposit Facility)	43,000,000	0.010%	25/08/21
Fixed Deposits	DMADF (Debt Management Account Deposit Facility)	15,000,000	0.010%	27/08/21
Fixed Deposits	DMADF (Debt Management Account Deposit Facility)	6,150,000	0.010%	06/08/21
Fixed Deposits	DMADF (Debt Management Account Deposit Facility)	4,850,000	0.010%	18/08/21
Total	DMADF	81,030,000		
Call Account	National Westminster Bank plc	5,625,000	0.01%	
Call Account	Santander UK plc	15,000,000	0.12%	
Call Account	Lloyds Bank plc	15,000,000	0.01%	
Total	Bank Call Accounts	35,625,000		
No Use Empty Loans		9,037,864	1.50%	
Registered Provider	£10m loan facility – non utilisation fee		0.40%	31/03/23
Registered Provider	£5m loan facility – non utilisation fee		0.40%	16/06/23
Money Market Funds	Federated Short-term Sterling Prime Fund GBP KCC	14,996,499	0.01%	
Money Market Funds	HSBC Sterling Liquidity Fund	12,150,554	0.00%	
Money Market Funds	LGIM Sterling Liquidity Fund 4 KCC	727	0.00%	
Money Market Funds	Aberdeen Liquidity Fund (Lux) KCC	19,995,712	0.01%	
Money Market Funds	Northern Trust Sterling Cash Fund	19,929,271	0.00%	
Money Market Funds	Aviva Investors Sterling Liquidity Fund 3 GBP Inc	19,997,273	0.01%	
Money Market Funds	Deutsche Managed Sterling Platinum	19,995,022	0.01%	
Total	Money Market Funds	107,066,058		
Equity and Loan Notes	Kent PFI (Holdings) Ltd	2,135,741		n/a

1.2 Bond Portfolio

Bond Type	Issuer	Adjusted Principal	Coupon Rate	Maturity Date
		£		
Fixed Rate Covered Bond	Bank of Scotland - Bonds	4,484,701	1.71%	20/12/2024
Fixed Rate Covered Bond	National Australia Bank - Bonds	4,989,355	1.35%	10/11/2021
Fixed Rate Covered Bond	Leeds Building Society Bonds	4,202,931	1.29%	17/04/2023
Fixed Rate Covered Bond	Bank of Nova Scotia Bonds	4,996,900	0.88%	14/09/2021
Fixed Rate Covered Bond	National Australia Bank - Bonds	3,000,636	1.10%	10/11/2021
Fixed Rate Covered Bond	Barclays - Bonds	20,530,604	0.71%	12/01/2022
Fixed Rate Covered Bond	Bank of Scotland - Bonds	6,918,772	0.43%	20/12/2024
Floating Rate Covered Bond	TSB Bank - Bonds	2,502,309	0.88%	15/02/2024
Floating Rate Covered Bond	Lloyds - Bonds	2,501,278	0.31%	27/03/2023
Floating Rate Covered Bond	Lloyds - Bonds	2,501,706	0.30%	27/03/2023
Floating Rate Covered Bond	Nationwide Building Society - Bonds	3,996,140	0.76%	10/01/2024
Floating Rate Covered Bond	Lloyds - Bonds	4,500,000	0.65%	14/01/2022
Floating Rate Covered Bond	Australia and New Zealand Banking group - bonds	3,000,000	0.73%	24/01/2022
Floating Rate Covered Bond	Santander UK - Bonds	2,001,858	0.74%	12/02/2024
Floating Rate Covered Bond	Nationwide Building Society - Bonds	4,502,112	0.31%	12/04/2023
Floating Rate Covered Bond	Bank of Montreal - Bonds	5,002,347	0.33%	17/04/2023
Floating Rate Covered Bond	Lloyds - Bonds	5,003,013	0.30%	27/03/2023
Floating Rate Covered Bond	Canadian Imperial Bank of Commerce - Bonds	5,006,083	0.26%	10/01/2022
Floating Rate Covered Bond	Santander UK - Bonds	5,001,302	0.27%	16/11/2022
Floating Rate Covered Bond	Nationwide Building Society - Bonds	5,582,217	0.29%	12/04/2023
Total	Bonds	100,224,264		

Total Internally managed investments

386,214,489

2. Externally Managed Investments

Investment Fund	Book Cost	Market Value at	12 months return to	12 months return to
	£	30-July-21	31-July-21	31-July-21
		£	Income	Total
Aegon (Kames) Diversified Monthly Income Fund	20,000,000	20,208,689	4.70%	12.46%
CCLA - Diversified Income Fund	5,000,000	5,226,886	3.05%	9.69%
CCLA – LAMIT Property Fund	60,000,000	60,236,070	4.13%	12.89%
Fidelity Global Multi Asset Income Fund	25,038,637	24,755,462	4.30%	4.27%
Investec Diversified Income	10,000,000	12,713,323	3.65%	30.38%
M&G Global Dividend Fund	10,000,000	10,067,139	4.27%	6.36%
Pyrford Global Total Return Sterling Fund	5,000,000	4,991,412	1.94%	3.97%
Schroder Income Maximiser Fund	25,000,000	19,462,126	8.11%	30.53%
Threadneedle Global Equity Income Fund	10,000,000	11,047,271	3.28%	23.39%
Threadneedle UK Equity Income Fund	10,000,000	10,175,070	3.65%	29.20%
Total External Investments	180,038,637	178,883,448	4.40%	14.99%

3. Total Investments

Total Investments	£565,097,937
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