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SELBY DISTRICT COUNCIL

Meeting:	**SCRUTINY COMMITTEE**
Date:	**THURSDAY, 30 JUNE 2022**
Time:	**5.00 PM**
Venue:	**COUNCIL CHAMBER - CIVIC CENTRE, DONCASTER ROAD, SELBY, YO8 9FT**
To:	**Councillor S Shaw-Wright (Chair), Councillor W Nichols (Vice-Chair), Councillor A Lee, Councillor R Sweeting, Councillor J Chilvers, Councillor K Ellis and Councillor J McCartney**

Supplementary Agenda

Item 8. Treasury Management - Quarterly Update Q4 - 2021-22 (S/22/2)

Correct Treasury Management Q4 2021-22 report and appendix.

Janet Waggott

Janet Waggott, Chief Executive

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SELBY
DISTRICT COUNCIL

APPENDIX A – REVISED REPORT TO SCRUTINY COMMITTEE 30 JUNE 2022
ITEM 8 – TREASURY MANAGEMENT Q4 2021-22

Report Reference Number: E/22/4

To:	Executive
Date:	26 May 2022
Status:	Non-Key Decision
Ward(s) Affected:	All
Author:	Chris Chapman, Accountant
Lead Executive Member:	Councillor Cliff Lunn, Executive Member for Finance and Resources
Lead Officer:	Karen Iveson, Chief Finance Officer and S151 Officer

Title: Treasury Management – Quarterly Update Q4 2021/22

Summary:

This report reviews the Council's borrowing and investment activity (Treasury Management) for the period 1st April 2021 to 31 March 2022 and presents performance against the Prudential Indicators.

Investments – On average the Council's investments held in the NYCC investment pool totalled £82.11m over the year at an average rate of 0.24% and earned interest of £201k (£136k allocated to the General Fund; £65k allocated to the HRA) which is £83k above the total annual budget. This exceeded the Q3 estimated return of £159k by £42k, an upturn in performance driven by the recent increases in Bank of England Base rate.

In addition to investments held in the pool, the council has £5.46m invested in property funds as at 31 March 2022. The funds achieved 3.46% revenue return and 17.39% capital gain over the course of the year. This resulted in revenue income of £173.0k to the end of Q4 and an 'unrealised' capital gain of £809.0k for the year. These funds are long term investments and changes in capital values are realised when the units in the funds are sold.

Borrowing – Long-term borrowing totalled £52.833m at 31 March 2022, (£1.6m relating to the General Fund; £51.233m relating to the HRA), Interest payments of £1.922m were paid in 2021/22, a saving of £218k against budget. The Council undertook no short term borrowing in year.

Prudential Indicators – the Council's affordable limits for borrowing were not breached during this period.

Looking ahead to 2022/23 investment returns are expected to continue to rise due to the recent increases in Bank Base Rate. Base rate is currently expected to continue to rise over the course of the year, with latest estimates showing an increase to 1.25% by March 2024. Property Fund performance in year has been driven by a recovery following an initial decrease in value as a result of the Covid-19 pandemic.

Recommendations:

That the Executive endorse the actions of officers on the Council's treasury activities for Q4 2021/22 and approve the report.

Reasons for recommendation

To comply with the Treasury Management Code of Practice, the Executive is required to receive and review regular treasury management monitoring reports**.**

1. Introduction and background

1.1 This is the final monitoring report for treasury management in 2021/22 and covers the period 1 April 2021 to 31 March 2022. During this period the Council complied with its legislative and regulatory requirements.

1.2 Treasury management in Local Government is governed by the CIPFA "Code of Practice on Treasury Management in the Public Services" and in this context is the management of the Council's cash flows, its banking and its capital market transactions, the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks. This Council has adopted the Code and complies with its requirements.

1.3 The Council's Treasury Strategy, including the Annual Investment Strategy and Prudential Indicators was approved by Council on 18 February 2021.

1.4 The two key budgets related to the Council's treasury management activities are the amount of interest earned on investments £118k (£79k General Fund, £39k HRA) and the amount of interest paid on borrowing £2.140m (£75k General Fund, £2.065m HRA).

2. The Report

<u>Market Conditions and Interest Rates</u>

2.1 The Council's treasury advisors Link Group summarised the key points associated with economic activity in 2021/22 up to 31 March 2022:

- Over the last two years, the coronavirus outbreak has done huge economic damage to the UK and world economies. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it remained unchanged until raising to 0.25% in December 2021, 0.50% in February 2022 and then to 0.75% in March 2022.

- The UK economy has endured several false dawns through 2021/22, but with most of the economy now opened up and nearly back to business-as-usual, the GDP numbers have been robust (9% y/y Q1 2022) and sufficient for the Monetary Policy Committee to focus on tackling the second-round effects of inflation, now that the CPI measure has already risen to 6.2% and is likely to exceed 8% in April.

- Gilt yields fell towards the back end of 2021, but despite the war in Ukraine gilt yields have shot higher in early 2022. At 1.38%, 2-year yields remain close to their recent 11-year high and 10-year yields of 1.65% are close to their recent six-year high. These rises have been part of a global trend as central banks have suggested they will continue to raise interest rates to contain inflation.

Interest Rate Forecasts

2.2 The movement in relevant UK market interest rates for the year was as follows:

a) for Bank rate

Period	%
1 April 2021 – 15 December 2021	0.10
16 December 2021 – 02 February 2022	0.25
03 February 2022 – 16 March 2022	0.50
17 March 2022 – 31 March 2022	0.75

b) for PWLB rates

Item	Range during Year	Start of Year	End of Year	Average In Year
	%	%	%	%
Fixed Interest Maturity				
1 year	0.78 - 2.03	0.80	1.91	1.13
5 years	1.08 – 2.38	1.26	2.26	1.49
10 years	1.42 – 2.55	1.77	2.45	1.81
25 years	1.66 – 2.75	2.22	2.63	2.10
50 years	1.25 – 2.48	2.02	2.38	1.84

* Net of certainty rate 0.2% discount

c) for Investment rates

	Bank Rate	7 day	1 mth	3 mth	6 mth	12 mth
High	0.25	0.06	0.06	0.14	0.36	0.73
High Date	17/12/2021	29/12/2021	31/12/2021	31/12/2021	30/12/2021	28/10/2021
Low	0.10	-0.09	-0.08	-0.07	-0.04	0.04
Low Date	01/07/2021	27/08/2021	17/09/2021	08/09/2021	27/07/2021	08/07/2021
Average	0.11	-0.07	-0.05	-0.01	0.09	0.31
Spread	0.15	0.15	0.14	0.20	0.40	0.68

Annual Investment Strategy

2.3 The Annual Investment Strategy outlines the Council's investment priorities which are consistent with those recommended by DCLG and CIPFA:

- Security of Capital and
- Liquidity of its investments

2.4 The Investment of cash balances of the Council are managed as part of the investment pool operated by North Yorkshire County Council (NYCC). In order to facilitate this pooling, The Councils Annual Investment strategy and Lending List has been aligned to that of NYCC.

2.5 NYCC continues to invest in only highly credit rated institutions using the Link suggested creditworthiness matrices which take information from all the credit ratings agencies. Officers can confirm that the Council has not breached its approved investment limits during the year.

2.6 The Council's investment activity in the NYCC investment pool up to 31 March 2022 was as follows:

- Balance invested at 31 March 2022 £80.51m
- Average Daily Balance 2021/22 £82.11m
- Average Interest Rate Achieved 2021/22 0.24%
- Total Interest Budgeted 2021/22 £118k
- Total Interest achieved 2021/22 £201k

2.7 Looking ahead to 2022/23 investment returns are expected to continue to increase due to the recent increases in Bank Base Rate, increases that are expected to continue based on latest estimates. This position remains under regular review, due to ongoing uncertainties in the market. No changes to the Treasury Management Strategy are therefore proposed.

Borrowing

2.8 It is a statutory duty for the Council to determine and keep under review its "Affordable Borrowing Limits". The Council's approved Prudential Indicators (affordable limits) were outlined in the Treasury Management Strategy Statement (TMSS). A list of the limits is shown at Appendix A. Officers can confirm that the Prudential Indicators were not breached during the year.

2.9 The TMSS indicated that there was no requirement to take long-term borrowing during 2021/22 to support the budgeted capital programme. Currently there are no plans to undertake further long-term borrowing in the coming financial year.

2.10 The Council approved an Authorised Borrowing Limit of £90m (£89m debt and £1m Leases) and an Operational Borrowing Limit of £85m (£84m debt and £1m Leases) for 2021/22 on the 18 February 2021 within the Council's Treasury Strategy.

2.11 As of 31 March 2022 Long-term borrowing totalled £52.833m at 31 March 2022, (£1.6m relating to the General Fund; £51.233m relating to the HRA). This figure remains unchanged throughout the year, with the next forecast loan repayment scheduled for March 2035.

2.12 The Treasury strategy, in relation to capital financing, is to continue the voluntary set aside of Minimum Revenue Provision (MRP) payments from the HRA in relation to self-financing debt, to allow for repayment of the outstanding debt. Following an updating of the HRA business plan in 2021/22, the voluntary set aside of HRA MRP payments has been reprofiled over the life of the existing debt, a change from the original 30-year profiling period. As a result of this update, £1.33m of HRA Voluntary MRP was incurred in 2021/22.

2.13 As a result, the Council was in an under-borrowed position of £1.5m as at 31 March 2022. This means that capital borrowing (external debt) is currently and temporarily lower than the Council's underlying need to borrow. This is in line with MTFS indicators, which had forecast an under-borrowed position at year end of £849k.

Capital Strategy

2.14 The Capital Strategy was included as part of the Council's Annual Treasury Management and Investment Strategy 2021/22, approved in February 2021. The Capital Strategy sets out how capital expenditure, capital financing and treasury management contribute to the provision of Corporate and service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability. It sets out the long-term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes.

2.15 Alternative non-treasury investments are considered as part of the Capital Strategy. Given the technical nature of potential alternative investments and strong linkages to the Council's Treasury Management function, appropriate governance and decision-making arrangements are needed to ensure robust due diligence in order to make recommendations for implementation. As a result, all investments are subject to consideration and where necessary recommendations of the Executive.

2.16 Aside from the existing loans to Selby & District Housing Trust to support the Housing Delivery Programme, no further options for alternative investments are currently being pursued.

Housing Delivery Programme Loans

2.17 The Housing Delivery Programme has delivered a number of successful schemes so far, in partnership with Selby & District Housing Trust. Whilst no further schemes are planned, existing loans to fund provision of affordable homes in the district have continued in 21/22. The forecast income for the year in addition to standard treasury returns is £118k, which is approximately £111k over the forecasted standard interest that is currently achieved on cash investments.

Scheme	Loan Rate %	Principal Outstanding as at 31 March 2022 £	Interest 21/22 £
Kirgate, Tadcaster	4.56%	178,293	8,708
St Joseph's St	4.20%	193,573	8,520
Jubliee Close, Riccall	3.55%	514,240	18,826
Ulleskelf	4.87%	1,026,712	50,562
Ousegate	3.65%	825,158	31,146
Total Principal / Average Rate	**4.19%**	**2,737,976**	**117,762**

Commercial Property Investments

2.18 The Council currently possesses one Commercial Property, the former NatWest Bank located in Tadcaster. As part of the Council's wider P4G programme the plans for the future of this property are currently undergoing active consideration.

Property Funds

2.19 The position on Property Funds at 31 March 2022 is as follows:

<u>In Year Performance -</u>

Fund	Bfwd Investment £k	Valuation as at 31-Mar-22 £k	In Year Performance Q4 21/22 Capital Gain / (Loss) £k	%	Revenue Return £k	%
Blackrock	2,394.96	2,823.44	428.5	17.89	73.4	2.86
Threadneedle	2,255.82	2,636.30	380.5	16.87	99.6	4.09
Total	**4,650.78**	**5,459.73**	**809.0**	**17.39**	**173.0**	**3.46**

<u>Total Fund Performance</u>

Fund	Original Investment £k	Valuation as at 31-Mar-22 £k	Total Performance Capital Gain / (Loss) £k	%	Revenue Return £k	%
Blackrock	2,502.50	2,823.44	320.9	12.82	268.6	3.63
Threadneedle	2,439.24	2,636.30	197.1	8.08	355.7	3.94
Total	**4,941.73**	**5,459.73**	**518.0**	**10.48**	**624.3**	**3.78**

2.20 Investments held in Property Funds are classified as Non-Specified Investments and are, consequently, long term in nature. Valuations can, therefore, fall and rise over the period they are held. Any gains or losses in the capital value of investments are held in an unusable reserve on the balance sheet and do not impact on the General Fund until units in the funds are sold.

2.21 The Capital Values of both funds has shown continual strong performance over the course of the year, having recovered from their initial decrease as a result of the Covid-19 pandemic. Both funds now show a combined capital gain on their initial purchase price. At the end of Q4 2021/22 the funds have demonstrated a combined capital gain of £809.0k in the year, and a gain of £518.0k over initial purchase price. Both funds have also continued to generate a positive revenue return, amounting to £173.0k for 2021/22.

3. Alternative Options Considered

3.1 The Council has access to a range of investments through the pooled arrangements in place through North Yorkshire County Council.

4. Implications

4.1 **Legal Implications**

There are no legal implications as a direct result of this report.

4.2 **Financial Implications**

The financial implications are set out in the report.

4.3 **Policy and Risk Implications**

4.3.1 Management of the Council's treasury activities are in accordance with approved policies. Treasury management in Local Government is governed by the CIPFA "Code of Practice on Treasury Management in the Public Services" which aims to ensure the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks. This Council has adopted the Code and complies with its requirements.

4.4 Corporate Plan Implications

4.4.1 There are no direct Corporate Plan implications as a result of this report.

4.5 Resource Implications

4.5.1 The resources necessary to manage the Council's Treasury activities are contained within the collaboration agreement with NYCC.

4.6 Other Implications

4.6.1 There are no other implications as a direct result of this report.

4.7 Equalities Impact Assessment

4.7.1 There are no equalities impacts as a direct result of this report.

5. Conclusion

5.1 Overall the Council's investments have performed well over the year and returns have exceeded budget. The Bank Base Rate has seen a number of rises over the course of the year, which will translate into increasing investment returns for the coming year.

5.2 Property Fund investments in particular have performed well over the course of the year, showing a strong capital growth and continuing revenue returns. These investments are intended to be longer term in nature and as such their strong capital growth will not impact on the General Fund until units in the funds are sold, with any change in value until that point held on the Balance Sheet in an unusable reserve.

5.3 The Council's debt position is in line with expectations set out in the Strategy. Opportunities to ensure the optimisation of the Council's Debt Portfolio will remain under review, however at present no changes are expected, either via the early resettlement of existing debt or the raising of further borrowing.

5.4 The Council operated within approved Strategy Indicators for the year, with no breaches on authorised limits. The Prudential Indicators are reviewed annually as part of the Treasury Strategy to ensure approved boundaries remain appropriate; activities during 2021/22 have not highlighted any concerns.

6. Background Documents

None.

7. Appendices

Appendix A – Prudential Indicators as of 31 March 2022

Contact Officer:
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Prudential Indicators - As at 31 March 2022

Note	Prudential Indicator	2021/22 Updated Indicator - MTFS	Quarter 4 Actual
1	Capital Financing Requirement £'000	53,682	54,358
	Gross Borrowing £'000	52,833	52,833
	Investments £'000	53,216	88,700
2	Net Borrowing £'000	-383	-35,867
3	Authorised Limit for External Debt £'000	78,000	52,833
4	Operational Boundry for External Debt £'000	73,000	52,833
5	Limit of fixed interest rates based on net debt %	100%	100%
	Limit of variable interest rates based on net debt %	30%	0%
6	Principal sums invested for over 364 days		
	1 to 2 years £'000	20,000	0
	2 to 3 years £'000	15,000	0
	3 to 4 years £'000	5,000	0
	4 to 5 years £'000	5,000	0
7	Maturity Structure of external debt borrowing limits		
	Under 12 months %	20%	0.00%
	1 to 2 years %	20%	0.00%
	2 to 5 years %	50%	0.00%
	5 to 10 years %	50%	0.00%
	10 to 15 years %	50%	3.00%
	15 years and above %	90%	97.00%

1. Capital Financing Requirement – this is a measure of the Council's underlying need to borrow long term to fund its capital projects.

2. Net Borrowing (Gross Borrowing less Investments) – this must not except in the short term exceed the capital financing requirement.

3. Authorised Limit for External Debt – this is the maximum amount of borrowing the Council believes it would need to undertake its functions during the year. It is set above the Operational Limit to accommodate unusual or exceptional cashflow movements.

4. Operational Boundary for External Debt – this is set at the Council's most likely operation level. Any breaches of this would be reported to Councillor's immediately.

5. Limit of fixed and variable interest rates on net debt – this is to manage interest rate fluctuations to ensure that the Council does not over expose itself to variable rate debt.

6. Principal Sums Invested for over 364 days – the purpose of these limits is so that the Council contains its exposure to the possibility of loss that might arise as a result of having to seek early repayment or redemption of investments.

7. Maturity Structure of Borrowing Limits – the purpose of this is to ensure that the Council is not required to repay all of its debt in one year. The debt in the 15 years and over category is spread over a range of maturities from 23 years to 50 years.

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