SELBY DISTRICT COUNCIL

Report Reference Number: **E/20/15**

To:	**Executive**
Date:	**3 September 2020**
Status:	**Non Key Decision**
Ward(s) Affected:	**All**
Author:	**Michelle Oates, Senior Accountant**
Lead Executive Member:	**Councillor Cliff Lunn, Lead Member for Finance & Resources**
Lead Officer:	**Karen Iveson, Chief Finance Officer, S151**

Title: Treasury Management – Quarterly Update Q1 2020/21

Summary:

This report reviews the Council's borrowing and investment activity (Treasury Management) for the period 1st April to 30th June 2020 (Q1) and presents performance against the Prudential Indicators.

Investments – On average the Council's investments totalled £75.0m over the quarter at an average rate of 0.77% and earned interest of £143.9k (£103.9k allocated to the General Fund; £40k allocated to the HRA) which was £22.7k above the year to date budget. However, cash balances are expected to gradually reduce over the year, and interest rates are now at unprecedented low levels, so forecast returns could be in the region of £260k, a budget deficit of £225k. The Bank Rate of 0.10% is expected to remain in place for at least the next two years, and a Brexit trade deal has yet to be agreed. The position will be kept under review.

In addition to investments held in the pool, the Council has £4.69m invested in property funds as at 30 June 2020. The funds achieved 3.59% revenue return and 2.91% capital loss. This resulted in revenue income of £41.7k to the end of Q1 and an 'unrealised' capital loss of £136.6k. 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 30 June 2020, (£1.6m relating to the General Fund; £51.233m relating to the HRA). Repayment was made in May 2020 of £6.5m HRA Debt. Interest payments of £1.917m are forecast for 2020/21, a saving of £0.871m against budget. This is due to HRA budgets allowing for borrowing to support Housing Delivery, which has not been required to date. The Council had no short term borrowing in place as at 31 June 2020.

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

Recommendation:

That Councillors endorse the actions of officers on the Council's treasury activities for Q1 2020/21 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 first monitoring report for treasury management in 2020/21 and covers the period 1 April to 30 June 20. 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 22 February 2020.

1.4 The two key budgets related to the Council's treasury management activities are the amount of interest earned on investments £485k (£350k General Fund, £135k HRA) and the amount of interest paid on borrowing £2.788m (£75.2k General Fund, £2.713m HRA).

2. The Report

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

2.1 The Council's treasury advisors Link Asset Services – Treasury Solutions summarised the key points associated with economic activity in Q1 2020/21 up to 30 June 2020**:**

- Big impact from coronavirus lockdown;
- Two emergency bank rate cuts, first to 0.25% and then to 0.10% with the latter likely to continue for some time;

- Uncertainties as to how quickly the economy will recover;
- UK Government rejected extending the Brexit transition period beyond 31 December 2020;
- Increase in quantitative easing;

- Measures to support jobs and businesses will result in a huge increase in the annual budget deficit in the current year;
- Annual inflation rise could reach zero by the end of the year.

Interest Rate Forecasts

2.2 The current interest rate forecasts (last update 6 July) of Link Asset Services – Treasury Solutions are as follows:

Date	***Bank rate***	***5 year PWLB****	***10 year PWLB****	***25 year PWLB ****	***50 year PWLB****
	%	%	%	%	%
Current rates	0.10%	1.90%	2.10%	2.50%	2.30%
Sept 2020	0.10%	1.90%	2.10%	2.50%	2.30%
Dec 2020	0.10%	1.90%	2.10%	2.50%	2.30%
March 2021	0.10%	2.00%	2.20%	2.60%	2.40%
June 2021	0.10%	2.00%	2.20%	2.60%	2.40%
Sept 2021	0.10%	2.00%	2.20%	2.60%	2.40%
Dec 2021	0.10%	2.00%	2.20%	2.60%	2.40%
March 2022	0.10%	2.00%	2.20%	2.60%	2.40%
June 2022	0.10%	2.10%	2.30%	2.70%	2.50%
Sept 2022	0.10%	2.10%	2.30%	2.70%	2.50%
Dec 2022	0.10%	2.10%	2.30%	2.70%	2.50%
March 2023	0.10%	2.10%	2.30%	2.70%	2.50%

* Net of certainty rate 0.2% discount

2.3 After the dramatic March 2020 decrease in Bank Rate to 0.10% the Monetary Policy Committee is unlikely to make any change until there are signs of positive economic activity after the lockdown and a degree of certainty around a Brexit trade deal.

<u>Annual Investment Strategy</u>

2.4 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

2.5 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 Council's Annual Investment strategy and Lending List has been aligned to that of NYCC.

2.6 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.

2.7 The Council's investment activity in the NYCC investment pool up to Q1 2020/21 was as follows:

- Balance invested at 30 June 2020 £68.1m
- Average Daily Balance Q1 20/21 £75.0m
- Average Interest Rate Achieved Q1 20/21 0.77%
- Forecast income for the year £260k

2.8 The average return to Q1 2020/21 of 0.77% compares with the average benchmark returns as follows:

- 7 day -0.04%
- 1 month 0.03%
- 3 months 0.26%
- 6 months 0.40%
- 12 months 0.50%

Borrowing

2.9 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.

2.10 The TMSS indicated that there was no requirement to take externa borrowing during 2020/21 to support the budgeted capital programme. However, the borrowing requirement is largely dependent on the Housing Development Programme and whilst it is expected that this will be funded by internal borrowing, this will continue to be reviewed to optimise the timing of external debt.

2.11 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 2020/21.

2.12 The current 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 in order to be in a position to repay the debt over 30 years. £1.26m is budgeted for 2020/21. However, the HRA Business Plan assumptions indicate that there may be a requirement to revisit this approach due to increasing capital programme requirements over the coming years.

2.13 The combination of a voluntary MRP strategy, along with a long-term loan repayment in May 2020, meant the Council was in an under-borrowed

position of £1.1m as at 30 June 2020. This means that capital borrowing (external debt) is currently lower than Council's underlying need to borrow. The movement from an over-borrowed position of £5.3m, a movement of £6.4m compared to the year-end position is a result of £6.5m borrowing repaid in May 2020. Planned capital expenditure funded by prudential borrowing, will increase the Council's capital financing requirement as the year progresses. External borrowing requirements are reviewed on an on-going basis to ensure the borrowing strategy reflects the latest capital programme needs and forecast borrowing rates.

2.14 The 2020/21 Treasury Management Strategy forecasts an under-borrowed position of £4.86m by the end of 21/22 as loans are made to support the Housing Trust, and HRA Housing Investment Programme. Plans to undertake any additional long term borrowing in the short/medium term will be kept under review as the Extended Housing Delivery Programme progresses and while borrowing rates remain low.

Capital Strategy

2.15 The Capital Strategy was included as part of the Council's Annual Treasury Management and Investment Strategy 2020/21, approved in February 2020. 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.

2.16 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.

2.17 In addition to loans to Selby & District Housing Trust to support the Housing Delivery Programme, options for alternative investments will be kept under review and are subject to individual business case approval.

Housing Delivery Programme Loans

2.18 The Housing Delivery Programme has delivered a number of successful schemes so far, in partnership with Selby & District Housing Trust. One of the principles underpinning the programme is that financial support will be provided to the Trust by way of grant and loans to fund provision of affordable homes in the District whilst achieving a revenue return for the Council's General Fund. The forecast income for the year in addition to standard treasury returns is £120k, which is approximately £107k over the forecasted standard interest that would be achieved on cash investments. The capital

programme assumes a further 15 sites will move into tender/negotiation stage around September this year, with drawdowns of up to £400k, although the timing of completions is uncertain at the moment, so any additional forecast interest will be reviewed once approved schemes are known. The table below summarises the loans provided to date.

Scheme	**Loan Rate %**	**Principal Outstanding 30 June 2020 £**	**Interest Q1 20/21 £**	**Interest Full Year £**
Kirkgate, Tadcaster	4.56%	186,438	2,223	8,893
St Joseph's St	4.20%	202,346	2,175	8,702
Jubilee Close, Riccall	3.55%	547,403	4,494	19,174
Ulleskelf	4.87%	1,066,136	12,817	51,269
Ousegate	3.65%	866,729	7,921	31,684
Average Rate / Total Principal and Interest	**4.36%**	**2,869,052**	**29,931**	**119,723**

Commercial Property Investments

2.19 To date there have been two Commercial Property acquisitions, one in Selby town and one in Tadcaster, both buildings are ex-Natwest Bank Properties. The first acquisition was a Tadcaster property, which completed during Q2 18/19. The second in Selby, which completed towards the end of Q3 18/19, has subsequently been sold, completing in July 2020. A small surplus of around £10k was generated after taking account of interim property costs. No formal plans for Tadcaster have been approved as yet.

Property Funds

2.20 The position on Property Funds at 30 June 2020 is as follows:

<u>In Year Performance</u>

			In Year Performance Q1 20/21			
Fund	**Bfwd Investment £k**	**Valuation as at 30-Jun-20 £k**	**Capital Gain / (Loss)**		**Revenue Return**	
			£k	**%**	£k	%
Blackrock	2,376.60	2,329.42	(47.2)	(1.99)	18.6	3.14
Threadneedle	2,308.11	2,218.73	(89.4)	(3.87)	23.1	4.05
Total	**4,684.71**	**4,548.15**	**(136.6)**	**(2.92)**	**41.7**	**3.59**

Total Fund Performance

Fund	Original Investment £k	Valuation as at 30-Jun-20 £k	Total Performance			
			Capital Gain / (Loss)		Revenue Return	
			£k	%	£k	%
Blackrock	2,502.50	2,329.42	(173.1)	(6.92)	138.8	3.56
Threadneedle	2,439.24	2,218.73	(220.5)	(9.04)	184.3	4.63
Total	**4,941.73**	**4,548.15**	**(393.6)**	**(7.96)**	**323.1**	**4.10**

2.21 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.

2.22 As a result of Covid-19, both funds have experienced further capital losses to the end of June 2020, although still delivering a positive revenue return.
Given the material uncertainty washing through financial markets and economies, many funds have temporarily suspended trading as firm valuations cannot be provided. These suspensions are driven by the fundamental requirement of funds to ensure that all investors are treated on an equal basis and they are not aimed at “penalising” investors.

2.23 It is also important to stress that the largest potential impact on fund valuations may not actually come until Q2 and/or possibly Q3. This is in line with underlying economic impact of the virus on the economy. The funds that Selby are invested in have relatively diverse portfolios to mitigate risk. The funds are actively managing these portfolios and working closely with their tenants to minimise losses and maximise potential opportunities. These funds are intended to be held for the longer term (5 years initially) in order to mitigate the risk of shorter-term losses.

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 Equalities Implications

There are no equalities implications as a result of this report.

5. Conclusion

5.1 The impact of the pandemic, and the turmoil in the financial markets, will continue to have an impact on the Council's investment returns. Forecasts predict slow recovery, exacerbated by the on-going delays with Brexit.

5.2 The Council's debt position is in line with expectations set out in the Strategy, with no immediate changes on the horizon. However, as the Housing Delivery Programme progresses, opportunities to optimise the Council's debt portfolio will be kept under review.

5.3 The Council operated within approved Strategy Indicators for the quarter, 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 to date during 2020/21 have not highlighted any concerns.

6. Background Documents

None.

7. Appendices

Appendix A – Prudential Indicators as at 30 June 2020

Contact Officers:

Michelle Oates, Senior Accountant – Capital & Treasury, NYCC
moates@selby.gov.uk

Karen Iveson, Chief Finance Officer
kiveson@selby.gov.uk