SELBY
DISTRICT COUNCIL

APPENDIX A (Executive Report 4 February 2021

Report Reference Number: E/20/34

To:	**Executive**
Date:	**4th February 2021**
Status:	**Non Key Decision**
Ward(s) Affected:	**All**
Author:	**Michelle Oates, Senior Accountant**
Lead Executive Member:	**Councillor Cliff Lunn, Lead Executive Member for Finance and Resources**
Lead Officer:	**Karen Iveson, Chief Finance Officer**

Title: **Treasury Management – Quarterly Update Q3 2020/21**

Summary:

This report reviews the Council's borrowing and investment activity (Treasury Management) for the period 1st April to 31st December 2020 (Q3) and presents performance against the Prudential Indicators.

Investments – On average the Council's investments totalled £74.8m up to the end of the third quarter, at an average rate of 0.57% and earned interest of £321k (£232k allocated to the General Fund; £89k allocated to the HRA) which was £85k above the year to date budget. The expected fall in cash balances and falling rate of return have been slower than initially expected when budgets were revised in Q1 based on forecast returns in the region of £260k, a budget reduction of £225k. Latest estimates predict returns of £331k, a surplus of £71k against the revised budget. 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 £4.58m invested in property funds as at 31 December. The funds achieved 3.60% revenue return at Q2 (Q3 revenue figures still awaited) and 2.17% capital loss as at end of December 2020. This resulted in revenue income of £83.4k to the end of Q2 and an 'unrealised' capital loss at the end of Q3 of £101.5k. 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 31st December 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 31st December 2020.

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

Recommendation:

i. Councillors endorse the actions of officers on the Council's treasury activities for Q3 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 third monitoring report for treasury management in 2020/21 and covers the period 1 April to 30 December 2020. 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 £260k (£188k General Fund, £72k HRA), revised at Q1 based on latest assumptions resulting from Covid measures. 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 Q3 2020/21 up to 31 December 2020**:**

- Bank Rate remained unchanged at 0.1%, with this rate now expected to continue for some time;

- The Bank of England announced a further tranche of quantitative easing (£150bn) is to commence January 2021;

- the final Brexit agreement on 24 December has eliminated a significant downside risk for the UK economy. However, the initial agreement only covers trade, leaving the services sector still to be formalised; and

- following the new national lockdown from 5 January the near-term outlook for the economy is poor. However, the distribution of vaccines and the expected removal of COVID-19 restrictions is expected to allow GDP to recover in the second half of 2021.

Interest Rate Forecasts

2.3 The current interest rate forecasts (last update 27 November) of Link Asset Services – Treasury Solutions are as follows:

	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5 yr PWLB	0.80	0.80	0.80	0.80	0.90	0.90	0.90	0.90	0.90	1.00	1.00	1.00	1.00
10 yr PWLB	1.10	1.10	1.10	1.10	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.30	1.30
25 yr PWLB	1.50	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.70	1.80	1.80	1.80	1.80
50 yr PWLB	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50	1.50	1.60	1.60	1.60	1.60

* Net of certainty rate 0.2% discount

2.4 As the interest forecast table for PWLB certainty rates, above, shows, there is likely to be little upward movement in PWLB rates over the next three years as it will take the UK a prolonged period to eliminate spare capacity in the economy

Annual Investment Strategy

2.5 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

2.6 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.

2.7 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.

2.8 The Council's investment activity in the NYCC investment pool up to Q3 2020/21 was as follows:-

- Balance invested at 30 December 2020 £74.83m
- Average Daily Balance Q3 20/21 £75.4m
- Average Interest Rate Achieved Q3 20/21 0.57%
- Forecast income for the year £331k

2.9 The average return to Q3 2020/21 of 0.57% compares with the average benchmark returns as follows:

- 7 day -0.07%
- 1 month -0.04%
- 3 months 0.04%
- 6 months 0.12%
- 12 months 0.23%

Borrowing

2.10 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.

2.11 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.

2.12 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.

2.13 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.

2.14 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 31 December 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.

2.15 The 2020/21 Treasury Management Strategy forecast 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. Whilst plans have been significantly delayed during the year, primarily as a result of Covid-19, 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

2.16 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.

2.17 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.

2.18 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

2.19 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. Latest updates on the programme suggest it is likely to be 2021/22 before further sites are in progress. The table below summarises the loans provided to date.

Scheme	Loan Rate %	Principal Outstanding 31 Dec 2020 £	YTD Interest Q3 20/21 £	Interest Full Year £
Kirgate, Tadcaster	4.56%	186,438	6,670	8,893
St Joseph's St	4.20%	202,346	6,526	8,702
Jubliee Close, Ricall	3.55%	536,299	14,381	19,174
Ulleskelf	4.87%	1,049,193	38,452	51,269
Ousegate	3.65%	866,729	23,763	31,684
Average Rate / Total Principal and Interest	**4.36%**	**2,869,052**	**89,792**	**119,723**

Commercial Property Investments

2.20 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

2.21 The position on Property Funds at 31 December 2020 is as follows:

<u>In Year Performance</u>

Fund	Bfwd Investment £k	Valuation as at 31-Dec-20 £k	In Year Performance Q3 20/21 — Capital Gain / (Loss) £k	%	Revenue Return (Q2) £k	%
Blackrock	2,376.60	2,362.32	(14.3)	(0.60)	34.7	2.94
Threadneedle	2,308.11	2,220.85	(87.3)	(3.78)	48.6	4.29
Total	**4,684.71**	**4,583.17**	**(101.5)**	**(2.17)**	**83.4**	**3.60**

<u>Total Fund Performance</u>

Fund	Original Investment £k	Valuation as at 31-Dec-20 £k	Total Performance — Capital Gain / (Loss) £k	%	Revenue Return (Q2) £k	%
Blackrock	2,502.50	2,362.32	(140.2)	(5.60)	154.9	3.63
Threadneedle	2,439.24	2,220.85	(218.4)	(8.95)	209.9	4.60
Total	**4,941.73**	**4,583.17**	**(358.6)**	**(7.26)**	**364.7**	**4.13**

2.22 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.

2.23 As a result of Covid-19, both funds experienced a sharp capital loss to the end of June 2020, which stabilised in the second and third quarter, with a marginal improvement on both Fund valuations. Both funds are expected to deliver a positive revenue return. Given the material uncertainty washing through financial markets and economies, many funds temporarily suspended trading (both in and outflows) as firm valuations could not be provided. Trading recommenced during by the third quarter on both Funds.

2.24 It is also important to stress that the largest potential impact on fund valuations may be still to come in future periods. This is in line with underlying economic impact of the on-going virus on the economy. The funds intend to issue a summary statement in the coming months, once a more comprehensive assessment of the impact can be undertaken. Given the volatility and risk within the market, both property funds will be reviewed in terms of their strategies to mitigate risk within their portfolios, in the context of the longer-term nature of these investments. Should any changes to these investments be considered necessary, these will be reported to the Executive and to Council if required.

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.

4.0 Implications

4.1 Legal Implications

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

4.2 Financial Implications

4.2.1 The financial implications are set out in the 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

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Appendices:
Appendix A – Prudential Indicators as at 31 December 2020