APPENDIX A to Scrutiny Report – 1 July 2021

Report Reference Number: E/21/2

To:	**Executive**
Date:	**27 May 2021**
Status:	**Non Key Decision**
Ward(s) Affected:	**All**
Author:	**Chris Chapman, Accountant**
Lead Executive Member:	**Councillor Cliff Lunn, Lead Executive Member for Finance and Resources**
Lead Officer:	**Karen Iveson, Chief Finance Officer, S151**

Title: Treasury Management – Quarterly Update Q4 2020/21

Summary:

This report reviews the Council's borrowing and investment activity (Treasury Management) for the period 1st April 2020 to 31 March 2021 and presents performance against the Prudential Indicators.

Investments – On average the Council's investments held in the NYCC investment pool totalled £74.91m over the year at an average rate of 0.48% and earned interest of £364k (£263k allocated to the General Fund; £101k allocated to the HRA) which is £104k above the total annual budget. This exceeded the Q3 estimated return of £331k by £34k, where it was noted that, whilst in-year performance was better than expected, the Bank Rate remained low and a Brexit trade deal was still yet to be agreed.

In addition to investments held in the pool, the council has £4.65m invested in property funds as at 31 March 2021. The funds achieved 3.69% revenue return and 0.72% capital loss. This resulted in revenue income of £169.9k to the end of Q4 and an 'unrealised' capital loss of £33.9k. 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 2021, (£1.6m relating to the General Fund; £51.233m relating to the HRA), Interest payments of £1.992m were paid in 2020/21, a saving of £2k 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 2021/22 investment returns are expected to continue to reduce due to the Bank Base Rate being forecasted to remain at 0.1% over the coming year. No changes to the Treasury Management Strategy are proposed.

Recommendations:

i. Councillors endorse the actions of officers on the Council's treasury activities for Q4 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 final monitoring report for treasury management in 2020/21 and covers the period 1 April 2020 to 31 March 2021. 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 05 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) and the amount of interest paid on borrowing £1.994m (£75k General Fund, £1.919m HRA).

2. The Report

Market Conditions and Interest Rates

2.1 The Council's treasury advisors Link Asset Services – Treasury Solutions summarised the key points associated with economic activity in 2020/21 up to 31 March 2021:

- the first national lockdown due to the Coronavirus pandemic in late March 2020 caused an economic downturn that exceeded the one caused by the financial crisis of 2008/09;
- The shorter, second lockdown in November and third lockdown in January 2021, saw businesses and individuals proving more resilient, resulting in less damage to the economy than was caused in the first lockdown;

- the fast programme of vaccination in both the UK and US is expected to lead to a return to something approaching normal life during the second half of 2021, and has been instrumental in speeding economic recovery and the reopening of the economy. It is therefore expected that the UK economy could recover its pre-pandemic level of economic activity during quarter 1 of 2022;
- the final Brexit agreement on 24th December 2020 eliminated a significant downside risk for the UK economy. The initial agreement only covered trade so there is further work to be done on the services sector where temporary equivalence has been granted in both directions between the UK and EU; that now needs to be formalised on a permanent basis. There was much disruption to trade in January as new administrative procedure were implemented. This appears to have eased, although remains acute in some areas.

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 2020 – 31 March 2021	0.10

b) for PWLB rates

Item	Range during Year	Start of Year	End of Year	Average In Year
	%	%	%	%
Fixed Interest Maturity				
1 year	0.85 - 2.14	2.09	0.99	1.63
5 years	0.92 - 2.19	2.12	1.38	1.70
10 years	1.20 - 2.48	2.3	1.91	2.01
25 years	1.73 – 3.06	2.8	2.39	2.53
50 years	1.52 – 2.91	2.54	2.19	2.34

* Net of certainty rate 0.2% discount

c) for Investment rates

Item	Range during Year	Start of Year	End of Year	Average during Year
	%	%	%	%
7 day LIBID	-0.10 – 0.00	0.00	-0.08	-0.07
1 month	-0.11 – 0.14	0.10	-0.07	-0.05
3 month	-0.10 – 0.56	0.45	-0.04	0.01
6 month	-0.10 – 0.62	0.59	-0.01	0.07
1 year	-0.05 – 0.77	0.71	0.04	0.17

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 2021 was as follows:

- Balance invested at 31 March 2021 £67.02m
- Average Daily Balance 2020/21 £74.91m
- Average Interest Rate Achieved 2020/21 0.48%
- Total Interest Budgeted 2020/21 £260k
- Total Interest achieved 2020/21 £364k

2.7 Looking ahead to 2021/22 investment returns are expected to continue to decrease due to the Bank Base Rate remaining at 0.10%. No changes to the Treasury Management Strategy are 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 2020/21 to support the budgeted capital programme. However, the borrowing requirement is largely dependent on the Housing Development Programme and whilst it is currently expected that this will be funded by internal borrowing in the short term, this will continue to be reviewed.

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 2020/21. The accompanying appendix to this report has been updated to reflect these figures, which were approved on the 05 February 2020 within the Council's Treasury Strategy.

2.11 As at 31st March 2021 Long-term borrowing totalled £52.833m at 31 March 2021, (£1.6m relating to the General Fund; £51.233m relating to the HRA). This compares to a figure of £59.3m at 31 March 2020 (£1.6m relating to the General Fund; £57.7m relating to the HRA). The movement in year reflects the repayment of a £6.5m loan from the Public Works Loans Board in May 2020.

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 in order to be in a position to repay the debt over 30 years. £1.26m was budgeted for 2020/21 and has been set aside.

2.13 As a result, the Council was in an under-borrowed position of £3.6m as at 31 March 2021. This means that capital borrowing (external debt) is currently and temporarily lower than the Council's underlying need to borrow. This is a decrease of £8.7m compared to the 2019/20 year-end position of being £5.3m overborrowed. This change has been driven by the repayment of the £6.5m external loan in year, reducing the level of external debt, and the planned capital expenditure in year, which the Council has been able to fund via internal revenue streams without a need to externally borrow.

2.14 The 2020/21 Treasury Management Strategy forecast an under-borrowed position of £10.7m by the end of 22/23 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 Aside from additional loans to Selby & District Housing Trust to support the Housing Delivery Programme, no further options for alternative investments are currently being pursued although the Council is considering a number of asset acquisitions to facilitate the Transforming Cities project around Selby Station.

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 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 table below summarises the loans provided to date.

Scheme	**Loan Rate %**	**Principal Outstanding £**	**Interest 20/21 £**
Kirgate, Tadcaster	4.56%	186,438	8,893
St Joseph's St	4.20%	202,346	8,702
Jubliee Close, Riccall	3.55%	547,403	19,174
Ulleskelf	4.87%	1,066,163	51,269
Ousegate	3.65%	866,729	31,684
Total Principal / Average Rate	**4.19%**	**2,869,052**	**119,722**

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 31 March 2021 is as follows:

In Year Performance -

Fund	Bfwd Investment £k	Valuation as at 31-Mar-21 £k	In Year Performance Q4 20/21			
			Capital Gain / (Loss)		Revenue Return	
			£k	%	£k	%
Blackrock	2,376.60	2,394.96	18.4	0.27	75.0	3.18
Threadneedle	2,308.11	2,255.82	(52.3)	(2.27)	94.9	4.21
Total	**4,684.70**	**4,650.78**	**(33.9)**	**(0.72)**	**169.9**	**3.69**

Total Fund Performance

Fund	Original Investment £k	Valuation as at 31-Mar-21 £k	Total Performance			
			Capital Gain / (Loss)		Revenue Return	
			£k	%	£k	%
Blackrock	2,502.50	2,394.96	(107.5)	(4.30)	195.1	3.30
Threadneedle	2,439.24	2,255.82	(183.4)	(7.52)	256.1	4.48
Total	**4,941.73**	**4,650.78**	**(291.0)**	**(5.89)**	**451.2**	**3.88**

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. These funds are intended to be held for the longer term (5 years initially) in order to mitigate the risk of shorter-term losses.

2.22 Despite continuing uncertainty relating to the economy, the UK property market has been relatively robust. Whilst experiencing some capital value loss, both funds have delivered positive revenue returns and a net positive return overall prior to March 2020.

2.23 The impact of Covid-19 resulted in both funds experiencing a sharp decline in capital value in March - June 2020. The capital value of both funds has been slowly recovering however since this date, with the Blackrock fund posting a small capital gain by the end of the year. Overall both funds achieved net gains for the year to 31 March 2021. As the Covid-19 situation progresses both funds' assets will be kept under regular review.

2.24 These investments are intended to be longer term in nature and the Council's strong financial position enabled the investment to be funded from reserves. This means future spending plans and cash balances are not reliant on access to the principal sums invested, and therefore may be held until unit values recover from losses. However, the Property Fund sector and performance of both Property Funds will continue to be monitored with support from Treasury Management advisers, Link

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 relatively well over the year and returns have exceeded budget. The Bank Base Rate remains low however, and will mean a continuing reduction in returns for the foreseeable future and uncertainty ahead.

5.2 Property Fund investments in particular are expected to be impacted by the uncertainty within the economy in the short term and there is potential for further reductions in capital values and revenue returns. The investments are intended to be longer term in nature and the Council's strong financial position enabled the investment to be funded from reserves. This means future spending plans and cash balances are not reliant on access to the principal sums invested, and therefore may be held until unit values recover from losses. However, the Property Fund sector and performance of both Property Funds will continue to be monitored with support from Treasury Management advisers, Link.

5.3 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 and interest rates begin to rise, opportunities to optimise the Council's debt portfolio will be kept under review.

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 2020/21 have not highlighted any concerns.

6. Background Documents

None.

7. Appendices

Appendix A – Prudential Indicators as at 31 March 2021

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