SELBY DISTRICT COUNCIL

APPENDIX A

Report Reference Number: E/21/20

To:	**Executive**
Date:	**9 September 2021**
Status:	**Non-Key Decision**
Ward(s) Affected:	**All**
Author:	**Christopher Chapman, Accountant**
Lead Executive Member:	**Councillor Lunn, Lead Member for Finance & Resources**
Lead Officer:	**Karen Iveson, Chief Finance Officer, S151**

Title: Treasury Management – Quarterly Update Q1 2021/22

Summary:

This report reviews the Council's borrowing and investment activity (Treasury Management) for the period 1st April to 30th June 2021 (Q1) and presents performance against the Prudential Indicators, which have been updated following approval of a revised Medium-Term Financial Strategy and Capital Programmes.

Investments – On average the Council's investments held in the NYCC Investment pool totalled £74.7m over the quarter at an average rate of 0.18% and earned interest of £34.0k (£24.5k allocated to the General Fund; £9.5k allocated to the HRA) which is £5k above the year to date budget. Interest rates remain at unprecedentedly low levels and as older investments with higher rates are maturing they are being replaced by new investments at the currently depressed rates. In this regard forecast returns could be in the region of £116k, a budget deficit of £2k.

A prudent forecast has been made in this respect, assuming decreasing invested cash balances as funds are utilised for the annual capital programme. The interest forecast will be kept under review as the year progresses. The Bank Rate of 0.10% is expected to remain in place for at least the next two years, until September 2023.

In addition to investments held in the pool, the Council has £4.77m invested in property funds as at 30 June 2021. The funds achieved 3.81% revenue return and 2.50% capital gain.

This resulted in revenue income of £44.7k to the end of Q1 and an 'unrealised' capital gain of £116.3k. 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 30th June 2021, (£1.6m relating to the General Fund; £51.233m relating to the HRA). Interest payments of £1.912m are forecast for 2021/22, a saving of £0.015m against budget. The Council had no short-term borrowing in place as at 31 June 2021.

Prudential Indicators – the revised capital programme (per approved MTFS) has been incorporated into forecasts for expenditure and financing and updated prudential indicators are set out at Appendix A. The Council's affordable limits for borrowing were not breached during this period.

Recommendation:

i. That Executive note the actions of officers on the Council's treasury activities for Q1 2021/22 and approve the revised Prudential Indicators set out at Appendix A to 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 2021/22 and covers the period 1 April to 30 June 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. 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 (£80k General Fund, £38k HRA) and the amount of interest paid on borrowing £1.927m (£75.2k General Fund, £1.852m 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 Q1 2021/22 up to 30 June 2021**:**

- Bank Rate remained unchanged at 0.1%, with this rate now expected to continue for some time;
- the Bank of England announced it is to undertake a review of its current policy to raise interest rates first before unwinding quantitative easing;
- the annual inflation rate in the United Kingdom rose to 2.1% in May from 1.5% in April: this is the first time that the measure has been above the Bank of England's 2% target since July 2019; and
- COVID-19 vaccines have boosted confidence that life in the UK could largely return to normal during the second half of 2021, with forward looking business surveys anticipating a strong economic recovery.

Interest Rate Forecasts

2.2 The current interest rate forecasts (last update 10th May) 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%	1.21%	1.65%	2.05%	1.85%
June 2021	0.10%	1.20%	1.70%	2.20%	2.00%
Sept 2021	0.10%	1.20%	1.70%	2.20%	2.00%
Dec 2021	0.10%	1.30%	1.70%	2.30%	2.10%
March 2022	0.10%	1.30%	1.80%	2.40%	2.20%
June 2022	0.10%	1.30%	1.80%	2.40%	2.20%
Sept 2022	0.10%	1.40%	1.90%	2.40%	2.20%
Dec 2022	0.10%	1.40%	1.90%	2.50%	2.30%
March 2023	0.10%	1.40%	1.90%	2.50%	2.30%
June 2023	0.10%	1.40%	2.00%	2.50%	2.30%
Sept 2023	0.25%	1.50%	2.00%	2.50%	2.30%
Dec 2023	0.25%	1.50%	2.00%	2.50%	2.30%
Mar 2024	0.25%	1.50%	2.00%	2.60%	2.40%

* Net of certainty rate 0.2% discount

2.3 After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, the Monetary Policy Committee has left the rate unchanged at its subsequent meetings. As shown in the forecast table above, an increase in Bank Rate from 0.10% to 0.25% is now forecasted for September 2023 as an indication that the Bank of England will be moving towards some form of monetary tightening around this time

Annual Investment Strategy

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 2021/22 was as follows:-

- Balance invested at 30 June 2021 £72.9m
- Average Daily Balance Q1 21/22 £74.7m
- Average Interest Rate Achieved Q1 21/22 0.18%
- Total Interest Budgeted for 2021/22 £118k
- Total Forecast income for 2021/22 £116k

2.8 The average return to Q1 2021/22 of 0.18% compares with the average benchmark returns as follows:

- 7 day -0.08%
- 1 month -0.07%
- 3 months -0.04%
- 6 months -0.02%
- 12 months 0.04%

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 2021/22 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 £78m (£77m debt and £1m Leases) and an Operational Borrowing Limit of £73m (£72m debt and £1m Leases) for 2021/22.

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 2021/22.

2.13 The combination of the long-term loan repayment in 2020/21, and the Council's voluntary MRP strategy, has meant the Council was in an under-borrowed position of £3.5m as at 30 June 2021. This means that capital borrowing (external debt) is currently lower than Council's underlying need to borrow. This is an increase of £0.1m from the under-borrowed position of £3.6m reported at year-end 20-21.

2.14 The Council's external borrowing requirements continue to be reviewed on an on-going basis to ensure the borrowing strategy reflects the latest capital programme needs and forecast borrowing rates.

2.15 The 2021/22 Treasury Management Strategy has forecast an under-borrowed position of £5.27m by the end of 21/22 as further loans were anticipated to be made to support the Selby District Housing Trust and further expenditure was anticipated to fund the Purchase of Land under the General Fund Capital Programme. As approved within the latest Medium Term Financial Strategy, these schemes will no longer take place and no new borrowing is now planned. As a result of these changes, the council is expected to instead by in an under-borrowed position of approximately £1.5m by the end of the 21/22 financial year. This position will be kept under review as part of the subsequent quarterly Treasury Management Reports.

2.16 Plans to undertake any additional long term borrowing in the short/medium term will be kept under review while borrowing rates remain low, as the HRA Extended Housing Delivery Programme will continue to progress.

Capital Strategy

2.17 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.

2.18 A revised capital programme was approved by Council in July 2021 as part of a refreshed Medium-Term Financial Strategy. The revised capital expenditure programmes and associated financing are:

Capital Programmes	**2021/22 £000**	**2022/23 £000**	**2023/24 £000**
General Fund - General	3,428	2,176	1,442
General Fund – P4G	5,697	7,147	4,078
HRA	11,232	12,560	5,263
Total	**20,357**	**21,883**	**10,783**
Financing:			
Capital Receipts	3,099	1,971	1,180
Grants and Contributions	1,747	1,205	1,005
Borrowing	0	0	0
Reserves	13,428	12,794	8,598
S106 Commuted Sums	2,083	5,913	0
Total	**20,357**	**21,883**	**10,783**

2.19 The revised capital programmes reflect removal of Housing Trust Loans and land acquisitions and the associated borrowing.

2.20 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.

Housing Delivery Programme Loans

2.21 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 continue. The forecast income for the year in addition to standard treasury returns is £118k, which is approximately £113k over the forecasted standard interest that would be achieved on cash investments.

Scheme	Loan Rate %	Principal Outstanding 30 June 2021 £	Interest Q1 21/22 £	Interest Full Year £
Kirgate, Tadcaster	4.56%	182,373	2,223	8,708
St Joseph's St	4.20%	198,103	2,175	8,520
Jubliee Close, Ricall	3.55%	536,299	4,494	18,826
Ulleskelf	4.87%	1,049,193	12,817	50,562
Ousegate	3.65%	849,425	7,921	31,146
Average Rate / Total Principal and Interest	**4.19%**	**2,815,394**	**29,440**	**117,762**

Commercial Property Investments

2.22 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 and was subsequently sold in July 2020 generating small surplus of around £10k. Plans for the future of the Tadcaster property are currently being considered.

Property Funds

2.23 The position on Property Funds at 30 June 2021 is as follows:

In Year Performance

Fund	Bfwd Investment £k	Valuation as at 30-Jun-21 £k	In Year Performance Q1 21/22			
			Capital Gain / (Loss)		Revenue Return	
			£k	%	£k	%
Blackrock	2,394.96	2,442.35	47.4	1.98	19.6	3.26
Threadneedle	2,225.82	2,324.77	69.0	3.06	25.1	4.39
Total	**4,650.78**	**4,767.13**	**116.3**	**2.50**	**44.7**	**3.81**

Total Fund Performance

Fund	Original Investment £k	Valuation as at 30-Jun-21 £k	Total Performance			
			Capital Gain / (Loss)		Revenue Return	
			£k	%	£k	%
Blackrock	2,502.50	2,442.35	(107.5)	(4.30)	214.8	3.29
Threadneedle	2,439.24	2,324.77	(183.4)	(7.52)	281.2	4.46

Total	**4,941.73**	**4,767.13**	**(291.0)**	**(5.89)**	**495.9**	**3.86**

2.24 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.

2.25 Following a fall in Fund Capital Values in the initial months of 2020 as a result of Covid-19, the remainder of the 2020/21 financial year saw the value of both funds slowly recovering towards pre-Covid levels. This trend has continued into Q1 of 2021/22, with both funds demonstrating a combined capital gain of £116.3k in this initial period. Both funds have also continued to generate a positive revenue return, amounting to £41.9k in Q1 of 2021/22.

3.0 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.

5.0 Other Treasury Management Developments

5.1 CIPFA published their response to the Treasury Management Code and Prudential Code consultations on 24 June 2021. Following a review of the initial consultation, CIPFA have confirmed the changes that will be taken forward into revised versions including proposals for strengthening the Prudential and Treasury Management Codes with a focus on proportionality, clarification around the definition of commercial activity and officer/member training. CIPFA intends to publish the revised Codes in December 2021. All changes will then need to be reflected in the 2022/23 Treasury Management Strategy.

5.2 In addition to the changes being introduced by CIPFA, on 28 July 2021 the Ministry of Housing, Communities & Local Government (MHCLG) published a policy paper – Local Authority Capital Finance Framework: Planned Improvements. The paper sets out the government's plans for strengthening the current capital financing system while protecting the principles of local decision making. The paper sets out plans for improving the Government's role as steward of the local government financial system through data collection and risk prevention. The Government are currently reviewing the Prudential Framework and will be engaging with stakeholders on individual proposals as they are developed and through consultation where appropriate.

6. Conclusion

6.1 The ongoing impact of the pandemic, and the speed and nature of the economic recovery seen, will continue to have an impact on the Council's investment returns. Forecasts continue to predict slow recovery, with no change in Bank of England Base Rate until later 2023 at the earliest.

6.2 The Council's debt position is in line with expectations with no further in year loans to the Selby District Housing Trust, and no expenditure to purchase new land as part of the capital programme, anticipated, as approved under the latest Medium Term Financial Strategy. Opportunities to optimise the Council's debt portfolio will continue to remain under review.

6.3 The Prudential Indicators have been updated to reflect the revised capital programme approved as part of the refreshed MTFS. The Council operated within approved Strategy Indicators for the quarter, with no breaches on authorised limits.

7. Background Documents

None

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Appendices:
Appendix A – Prudential Indicators as at 30 June 2021