SELBY DISTRICT COUNCIL

TO ACT FOR OTHERS

Report Reference Number: E/21/30

To:	**Executive**
Date:	**2 December 2021**
Status:	**Non-Key Decision**
Ward(s) Affected:	**All**
Author:	**Christopher Chapman, Accountant**
Lead Executive Member:	**Cllr Cliff Lunn, Lead Member for Finance and Resources**
Lead Officer:	**Karen Iveson, Chief Finance Officer, S151**

Title: Treasury Management – Quarterly Update Q2 2021/22

Summary:

This report reviews the Council's borrowing and investment activity (Treasury Management) for the period 1st July to 30th September 2021 (Q2) and presents performance against the Prudential Indicators.

Investments – On average the Council's investments held in the NYCC Investment pool totalled £77.7m up to the end of the second quarter, at an average rate of 0.19% and earned interest of £73.1k (£49.3k allocated to the General Fund; £23.8k allocated to the HRA) which is £14.4k above the year to date budget. Interest rates on council investments have now stabilised following the drop in Bank of England base rate as a result of the Covid-19 pandemic, and for the remainder of the 21/22 financial year the rate of return on investment is currently expected to remain at current levels. In this regard forecast returns could be in the region of £133k, a budget surplus of £16k.

A prudent forecast has been made in this respect, continuing to assume decreasing invested cash balances over the course of the year 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 until March 2022.

In addition to investments held in the pool, the Council has £4.93m invested in property funds as at 30 September 2021. The funds have achieved a 3.46% revenue return and 5.96% capital gain over the course of the year. This resulted in revenue income of £82.9k to the end of Q2 and an 'unrealised' capital gain of £277.1k. 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 September 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 30 September 2021.

Prudential Indicators – 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 Q2 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 second monitoring report for treasury management in 2021/22 and covers the period 1 July to 30 September 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

<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 Q2 2021/22 up to 30 September 2021**:**

- Bank Rate remained unchanged at 0.1%, with no changes made to the programme of quantitative easing;

- inflationary pressures, due to labour shortages and increasing gas and electricity costs, may mean that inflation is higher than the Bank of England's 2% target for some time;

- financial markets are now pricing in a first increase in Bank Rate from 0.10% to 0.25% in February 2022; and

- Covid-19 vaccines have boosted confidence, with the expectation of increased demand in the travel, restaurant and hotel sectors.

Interest Rate Forecasts

2.2 The current interest rate forecasts (last update 29th September) 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%	1.40%	1.80%	2.20%	2.00%
Dec 2021	0.10%	1.40%	1.80%	2.20%	2.00%
March 2022	0.25%	1.40%	1.80%	2.20%	2.00%
June 2022	0.25%	1.50%	1.90%	2.30%	2.10%
Sept 2022	0.25%	1.50%	1.90%	2.30%	2.20%
Dec 2022	0.25%	1.60%	2.00%	2.40%	2.20%
March 2023	0.25%	1.60%	2.00%	2.40%	2.20%
June 2023	0.50%	1.60%	2.00%	2.40%	2.20%
Sept 2023	0.50%	1.70%	2.10%	2.50%	2.30%
Dec 2023	0.50%	1.70%	2.10%	2.50%	2.30%
Mar 2024	0.75%	1.70%	2.10%	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 March 2022, a second increase to 0.50% in June 2023 and a third one to 0.75% in March 2024.

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 Q2 2021/22 was as follows:

- Balance invested at 30 September 2021 £80.6m
- Average Daily Balance Q2 21/22 £77.7m
- Average Interest Rate Achieved Q2 21/22 0.19%
- Total Interest Budgeted for 2021/22 £118k
- Total Forecast income for 2021/22 £133k

2.8 The average return to Q2 2021/22 of 0.19% compares with the average benchmark returns as follows:

- 7 day -0.08%
- 1 month -0.07%
- 3 months -0.05%
- 6 months -0.02%
- 12 months 0.07%

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 external 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. £1.58m 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 September 2021. This means that capital borrowing (external debt) is currently lower than Council's underlying need to borrow. Based on current forecasts, the council will be in an under borrowed position of £0.8m at year end, which is in line with MTFS indicators.

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 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

2.16 The Capital Strategy was included as part of the Council's Annual Treasury Management and Investment Strategy 2021/22, approved in February 2021 and updated in July 2021 as part of a refreshed Medium-Term Financial Strategy. 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.

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. 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 £112k over the forecasted standard interest that is currently achieved on cash investments.

2.19

Scheme	Loan Rate %	Principal Outstanding 30 September 2021 £	Interest Q2 21/22 £	Interest Full Year £

Kirgate, Tadcaster	4.56%	182,373	4,354	8,708
St Joseph's St	4.20%	198,103	4,260	8,520
Jubliee Close, Ricall	3.55%	536,299	9,413	18,826
Ulleskelf	4.87%	1,049,193	25,281	50,562
Ousegate	3.65%	849,425	15,573	31,146
Average Rate / Total Principal and Interest	**4.19%**	**2,815,394**	**58,881**	**117,762**

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 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

2.21 The position on Property Funds at 30 September 2021 is as follows:

<u>In Year Performance</u>

			In Year Performance Q2 21/22			
Fund	**Bfwd Investment £k**	**Valuation as at 30-Sep-21 £k**	**Capital Gain / (Loss)**		**Revenue Return**	
			£k	**%**	£k	%
Blackrock	2,394.96	2,516.98	122.0	5.09	34.8	2.83
Threadneedle	2,225.82	2,410.89	155.1	6.87	48.1	4.12
Total	**4,650.78**	**4,927.87**	**277.1**	**5.96**	**82.9**	**3.46**

2.22 <u>Total Fund Performance</u>

			Total Performance			
Fund	**Original Investment £k**	**Valuation as at 30-Sep-21 £k**	**Capital Gain / (Loss)**		**Revenue Return**	
			£k	%	£k	%
Blackrock	2,502.50	2,516.98	14.5	0.58	229.9	3.36
Threadneedle	2,439.24	2,410.89	(28.3)	(1.16)	304.2	4.25
Total	**4,941.73**	**4,927.87**	**(13.8)**	**(0.28)**	**534.1**	**3.80**

2.23 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.

2.24 Following a fall in Fund Capital Values in the initial months of 2020 as a result of Covid-19, the values of both funds have continued their recovery and now stand above pre-Covid levels. At the end of Q2 2021/22 the funds have demonstrated a combined capital gain of £227.1k in the year. Both funds have also continued to generate a positive revenue return, amounting to £82.9k by the end of Q2 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. Conclusion

5.1 The ongoing impact of the pandemic, and the speed and nature of the economic recovery seen, continue to have an impact on the Council’s investment returns. An increase in Bank of England base rate is now forecasted to occur prior to the end of the financial year, however this position will be kept under review. Any increase in base rate will serve to increase the rate of return of Council investments.

5.2 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.

5.3 The Prudential Indicators are reviewed annually as part of the Treasury Strategy to ensure approved boundaries remain appropriate. The indicators in the Appendix reflect the updated position approved as part of the refreshed MTFS approved in July 2021, as referenced in the Q1 report. The Council operated within approved Strategy Indicators for the quarter, with no breaches on authorised limits.

6. Background Documents

None

Contact Details

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Appendices:

Appendix A – Prudential Indicators as at 30 September 2021