SELBY
DISTRICT COUNCIL

**Appendix A: Scrutiny Committee 24 March 2020**

**Report Reference Number: E/19/54**

---

| | |
|---|---|
| **To:** | **Executive** |
| **Date:** | **5 February 2020** |
| **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 2019/20**

**Summary:**

This report reviews the Council's borrowing and investment activity (Treasury Management) for the period 1st April to 31 December 2019 (Q3) and presents performance against the Prudential Indicators.

Investments – On average the Council's investments totalled £63.9m over the first 3 quarters at an average rate of 0.92% and earned interest of ££441k (£304k allocated to the General Fund; £137k allocated to the HRA) which is £114k above the year to date budget. Whilst cash balances are expected to reduce over the year, should interest rates remain static, forecast returns could be in the region of £572k, a budget surplus of £137k. However a no deal Brexit could lead to a cut in the Bank Rate and therefore the position will be kept under review.

In addition to investments held in the NYCC investment pool, the council has £4.83m invested in property funds as at 31 December 2019, with a net rate of return of 2.42% (3.95% revenue return and 1.53% capital loss) and achieved revenue income of £146.2k to the end of Q3 and a capital loss of £75.2k.

Borrowing – Long-term borrowing totalled £59.3m at 31st December 2019, (£1.6m relating to the General Fund; £57.7m relating to the HRA), Interest payments of £2.5m are forecast for 2019/20, a saving of £0.3m against budget. The Council had no short term borrowing in place as at 31st December 2019.

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

**Recommendations:**

**Councillors endorse the actions of officers on the Council's treasury activities for Q3 2019/20 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 second monitoring report for treasury management in 2019/20 and covers the period 1 April to 31 December 2019. 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 21 February 2019.

1.4 The two key budgets related to the Council's treasury management activities are the amount of interest earned on investments £435k (£300k General Fund, £135k HRA) and the amount of interest paid on borrowing £2.788m (£75k General Fund, £2.713m 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 Q3 2019/20 up to 31 December 2019**:**

- GDP rose by 0.4% q/q, but weakened at the start of Q4;
- The fundamentals that determine consumer spending softened a little, but remained healthy;
- Inflation remained below the Bank of England's 2% target;
- There was a widespread rise in investors' global interest rate expectations;
- The Monetary Policy Committee kept Bank Rate on hold at 0.75%, but is still awaiting more certainty over Brexit. ;
- Andrew Bailey was appointed to take over as Bank of England Governor, (from the March MPC meeting).

**Interest Rate Forecasts**

2.3 The current interest rate forecasts 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 | 0.75% | 2.40% | 1.50% | 2.10% | 3.20% |
| March 2020 | 0.75% | 2.40% | 2.70% | 3.30% | 3.20% |
| Sept 2020 | 0.75% | 2.50% | 2.70% | 3.40% | 3.30% |
| March 2021 | 1.00% | 2.60% | 2.90% | 3.60% | 3.50% |
| Sept 2021 | 1.00% | 2.80% | 3.10% | 3.70% | 3.60% |
| March 2022 | 1.25% | 2.90% | 3.20% | 3.90% | 3.80% |

* Net of certainty rate 0.2% discount

2.4 After the August 2018 increase in Bank Rate to 0.75%, the first above 0.5% since the financial crash, the MPC has put any further action on hold, until there is some degree of certainty around the potential impact of Brexit. There is still a risk that a no deal Brexit could result in a rate cut.

**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 Councils 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 2019/20 was as follows:-

- Balance invested at 31 December 2019 £68.9m
- Average Daily Balance Q3 19/20 £63.9m
- Average Interest Rate Achieved Q3 19/20 0.92%

2.9 The average return to Q3 2019/20 of 0.92% compares with the average benchmark returns as follows:

- 7 day 0.57%
- 1 month 0.58%
- 3 months 0.67%
- 6 months 0.75%
- 12 months 0.86%

**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 long term borrowing during 2019/20 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, this will continue to be reviewed.

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 2019/20.

2.13 The 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 2019/20.

2.14 As a result, the Council was in an over-borrowed position of £5.650m as at 31 December 2019. This means that capital borrowing (external debt) is currently and temporarily in excess of the Council's underlying need to borrow. The increase of £751k compared to the 2018/19 year-end position is a result of the in-year HRA self-financing set aside and timing of new capital expenditure which will increase as the year progresses. Planned capital expenditure funded by prudential borrowing, will increase the Council's capital financing requirement.

2.15 The 2019/20 Treasury Management Strategy forecasts an under-borrowed position of £12.4m 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**

2.16 The Capital Strategy was included as part of the Council's Annual Treasury Management and Investment Strategy 2019/20, approved in February 2019. 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 currently being pursued are Commercial Property investments, which are subject to individual business case approval, and Property Funds.

**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 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 31 Dec 19 £** | **Interest Q3 19/20 £** |
|---|---|---|---|
| Kirgate, Tadcaster | 4.56% | 190,326 | 6,803 |
| St Joseph's St | 4.20% | 206,418 | 6,657 |
| Jubliee Close, Ricall | 3.55% | 558,126 | 14,751 |
| Ulleskelf | 4.87% | 1,074,470 | 38,868 |
| Ousegate | 3.65% | 883,424 | 18,817 |
| **Total Principal / Average Rate** | **4.19%** | **2,912,763** | **85,895** |

**Commercial Property Investments**

2.20 To date there have been two successful bids on Commercial Properties, one in Selby town and one in Tadcaster, both buildings are ex-Natwest

Bank Properties. The first successful bid was placed for the Tadcaster property, which completed during Q2 18/19. The second in Selby, which completed towards the end of Q3 18/19. Plans to sell on one of the buildings are progressing and options for the other are being formulated.

**Property Funds**

2.21 The position on Property Funds at 31 December 2019 is as follows:

In Year Performance -

| | | | In Year Performance Q3 1920 | | | |
|---|---|---|---|---|---|---|
| **Fund** | **Bfwd Investment £k** | **Valuation as at 31-Dec-19 £k** | **Capital Gain / (Loss)** | | **Revenue Return** | |
| | | | **£k** | **%** | **£k** | **%** |
| Blackrock | 2,491.49 | 2,460.09 | (31.4) | (1.26) | 62.7 | 3.34 |
| Threadneedle | 2,416.03 | 2,372.24 | (43.8) | (1.81) | 83.5 | 4.58 |
| **Total** | **4,907.52** | **4,832.33** | **(75.2)** | **(1.53)** | **146.2** | **3.95** |

Total Fund Performance

| | | | Total Performance | | | |
|---|---|---|---|---|---|---|
| **Fund** | **Original Investment £k** | **Valuation as at 31-Dec-19 £k** | **Capital Gain / (Loss)** | | **Revenue Return** | |
| | | | **£k** | **%** | **£k** | **%** |
| Blackrock | 2,502.50 | 2,460.09 | (42.4) | (1.69) | 97.5 | 3.37 |
| Threadneedle | 2,439.24 | 2,372.24 | (67.0) | (2.75) | 131.2 | 4.67 |
| **Total** | **4,941.73** | **4,832.33** | **(109.4)** | **(2.21)** | **228.7** | **4.01** |

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

Despite the uncertainty relating to the economy, the UK property market has been relatively robust. While investments in both property funds have experienced a negative movement in capital value, they continue to provide positive revenue returns, delivering an overall gain to date. However, the UK commercial property market is currently undergoing major structural changes which are expected to place downward pressure on rental and capital values, which could potentially result in further reductions in revenue returns and capital values over the short term.

## 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

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

### 4.2 Financial Implications

4.2.1 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

4.5.2 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 The impact of the economy, and the turmoil in the financial markets, continues to have an impact on the Council's investment returns. Forecasts predict steady growth in bank rates over the long term over but this could change with a no deal Brexit. Whilst returns remain relatively modest, buoyant cash balances have resulted in positive performance up to the end of Quarter 3.

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 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 2019/20 have not highlighted any concerns.

## 6. Background Documents

None

## 7. Appendices:

Appendix A – Prudential Indicators as at 31 December 2019

**Contact Details**
Michelle Oates
Senior Accountant – Capital & Treasury
North Yorkshire County Council
moates@selby.gov.uk
Karen Iveson
Chief Finance Officer
kiveson@selby.gov.uk