SELBY DISTRICT COUNCIL

TO ACT FOR OTHERS

Report Reference Number: E/22/28

To:	**Executive**
Date:	**8 December 2022**
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 Q2 2022/23

Summary:

This report reviews the Council's borrowing and investment activity (Treasury Management) for the period 1 April 2022 to 30 September 2022 and presents performance against the Prudential Indicators.

Investments – On average the Council's investments held in the NYCC Investment pool totalled £85.9m over the quarter at an average rate of 1.37% and earned interest of £296.5k. Total interest earned so far this year stands at £458.2 (£330.5k allocated to the General Fund; £127.7k allocated to the HRA) which is £382.0k above the year-to-date budget. Current performance trends indicate that forecast returns for the year could be in the region of £1,189.3k (£857.9k GF, £331.4k HRA) a total budget surplus of £1,036.8k. For the General Fund, any interest earned above a £350k threshold is to be transferred to the Contingency Reserve. This figure is currently forecast to be £507.9k.

Return on council investments has performed positively when compared to budgets for the year. This is as a result of the regular and sustained rises in Bank of England base rate that have been experienced over the course of the year, in an effort to combat inflationary increases, as well as higher sustained cash balances. Base Rate has accordingly risen from 0.25% at the equivalent point last year when budgets were initially set, to their current level of 2.25%. The forecasted return for the year outlined above takes into account the tapering effect of these rises, as older investments at lower rates mature and are replaced by newer investments at higher rates. This position remains fluid as further Base rate rises, currently anticipated by the market, will serve to further increase potential returns against budget.

In addition to investments held in the pool, the council has £5.34m invested in property funds as at 30 September 2022. Following the latest distribution information, the funds have achieved a 3.08% revenue return and 2.20% capital loss over the course of the

year, resulting in revenue income of £84.5k and an ‘unrealised’ capital loss of £120.2k. 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 30 September 2022, (£1.6m relating to the General Fund; £51.233m relating to the HRA), Interest payments of £1.917m are forecast to be paid in 2022/23, a saving of £59k against budget. The Council has no plans for any short term borrowing for the year.

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

Looking ahead to the remainder of 2022/23, investment returns are expected to continue to rise due to the sustained increases in Bank Base Rate. Base rate is expected to continue to rise over the course of the year, with latest estimates showing an increase to 5.00% by March 2023. This position remains highly fluid and is based on the latest expectations by the Council’s Treasury Advisors, Link Group.

Recommendation:

That Councillors endorse the actions of Officers on the Council’s treasury activities for Quarter 2 2022/23 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 2022/23 and covers the period 1 April 2022 to 30 September 2022. 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 24 February 2022.

1.4 The two key budgets related to the Council’s treasury management activities are the amount of interest earned on investments £152.5k (£110k General Fund, £42.5k HRA) and the amount of interest paid on borrowing £1.976m (£75k General Fund, £1.901m HRA).

2. The Report

Market Conditions and Interest Rates

2.1 The Council's treasury advisors Link Group summarised the key points associated with economic activity in 2022/23 up to 30 September 2022:

- The UK economy grew by 0.2% in July following an upward revision to Q1's GDP data (+0.2% q/q), though revisions to historic data left it below pre pandemic levels.
- There were signs of economic activity losing momentum, as production fell due to rising energy prices;
- CPI inflation eased to 9.9% y/y in August but domestic price pressures show little sign of abating in the near-term;
- Bank Rate rose by 100bps over the quarter, taking Bank Rate to 2.25% with further rises to come;
- Gilt yields surge and sterling fall following the "fiscal event" of the new Prime Minister and Chancellor on 23rd September.

Interest Rate Forecasts

2.2 The current interest rate forecasts (as at 30th September 2022) of Link Group are as follows:

Date	***Bank rate***	***5-year PWLB****	***10-year PWLB****	***25-year PWLB ****	***50-year PWLB****
	%	%	%	%	%
Current rates	2.25%	5.30%	5.07%	4.85%	4.36%
Dec 2022	4.00%	5.00%	4.90%	5.10%	4.80%
March 2023	5.00%	4.90%	4.70%	4.90%	4.60%
June 2023	5.00%	4.70%	4.60%	4.80%	4.50%
Sept 2023	5.00%	4.50%	4.30%	4.50%	4.20%
Dec 2023	4.50%	4.20%	4.10%	4.30%	4.00%
March 2024	4.00%	3.90%	3.80%	4.10%	3.80%
June 2024	3.75%	3.70%	3.60%	3.90%	3.60%
Sept 2024	3.25%	3.50%	3.50%	3.70%	3.40%

* Net of certainty rate 0.2% discount

2.3 The previous months have seen the Bank of England continue to take sustained action via increases to the Bank Base Rate in their effort to combat inflationary pressures. As such current Base rate set by the Monetary Policy Committee is sitting at 2.25%. As shown in the forecast table above, significant further increases in Bank Rate are anticipated over the coming months, with Base rate currently expected to be around 4.00% at the time of Q3 reporting in December 2022. This position remains highly fluid given the current economic situation and will be updated and reviewed in future Treasury reports.

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 Councils 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 30 September 2022 was as follows:

- Balance invested at 30 September 2022 — £87.04m
- Average Daily Balance Q2 2022/23 — £85.85m
- Average Interest Rate Achieved Q2 2022/23 — 1.37%
- Total Interest Budgeted for 2022/23 — £152.5k
- Total Forecast Interest for 2022/23 — £1,189.3k

2.8 The average return to Q2 2022/23 of 1.37% compares with the average benchmark returns as follows:

- 7 day 1.19%
- 1 month 1.11%
- 3 months 0.91%
- 6 months 0.67%
- 12 months 0.37%

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 long-term borrowing during 2022/23 to support the budgeted capital programme. Currently there are no plans to undertake further long-term borrowing in the coming financial year.

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 2022/23 on the 24 February 2022 within the Council's Treasury Strategy.

2.12 As at 30th September 2022 Long-term borrowing totalled £52.833m, (£1.6m relating to the General Fund; £51.233m relating to the HRA). This figure is forecast to remain unchanged throughout the year, with the next scheduled loan repayment scheduled for March 2035.

2.13 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, to allow for repayment of the outstanding debt. Following an updating of the HRA business plan in 2021/22, the voluntary set aside of HRA MRP payments has been reprofiled over the life of the existing debt, a change from the original 30-year profiling period. As a result of this update, £1.21m of HRA Voluntary MRP is currently forecast to be incurred in 2022/23.

2.14 As at 30th September 2022, the Council was in an under-borrowed position of £1.5m, unchanged from the position reported at Q1. This means that capital borrowing (external debt) is currently and temporarily lower than the Council's underlying need to borrow. This under-borrowed position has been driven by the council's utilisation of internal borrowing, a Treasury Management practice whereby a Council can defer the need to borrow funds externally, thus attracting additional interest expenses, by utilising its existing cash balances to finance its capital programme. At year end, following the voluntary set aside of the MRP payments, the council is forecast to be in an over-borrowed position of £772k. This is in line with expectations set out in the approved Treasury Management Strategy and in line with the figure reported at Q1.

Capital Strategy

2.15 The Capital Strategy was included as part of the Council's Annual Treasury Management and Investment Strategy 2022/23, approved in February 2022. 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 the existing loans to Selby & District Housing Trust to support the Housing Delivery Programme, no further options for alternative investments are currently being pursued.

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. No further schemes are planned, though the existing loans to fund provision of affordable homes in the District have continued over the course of Q2 2022/23.

Scheme	**Loan Rate %**	**Principal Outstanding as at 30 September 2022 £**	**Interest Q2 22/23 £**	**Interest Full year £**
Kirgate, Tadcaster	4.56%	178,293	4,257	8,514
St Joseph's St	4.20%	193,573	4,166	8,331
Jubliee Close, Riccall	3.55%	514,240	9,205	18,410
Ulleskelf	4.87%	1,017,691	24,835	49,670
Ousegate	3.65%	825,158	15,248	30,496
Total Principal / Average Rate	**4.19%**	**2,728,955**	**57,711**	**115,423**

Commercial Property Investments

2.19 The Council currently possesses one Commercial Property, the former NatWest Bank located in Tadcaster. As part of the Council's wider P4G programme a decision has been made to declare the property as surplus to council requirements and formally dispose of the property.

Property Funds

2.20 The position on Property Funds at 30 September 2022 is as follows:

In Year Performance

Fund	Bfwd Investment £k	Valuation as at 30-Sept-22 £k	In Year Performance Q2 22/23 Capital Gain / (Loss) £k	%	Revenue Return £k	%
Blackrock	2,823.44	2,742.19	(81.2)	(2.88)	35.1	2.48
Threadneedle	2,636.30	2,597.32	(39.0)	(1.48)	49.5	3.71
Total	**5,459.73**	**5,339.51**	**(120.2)**	**(2.20)**	**84.5**	**3.08**

Total Fund Performance

Fund	Original Investment £k	Valuation as at 30-Sept-22 £k	Total Performance Capital Gain / (Loss) £k	%	Revenue Return £k	%
Blackrock	2,502.50	2,742.19	239.7	9.58	303.6	3.10
Threadneedle	2,439.24	2,597.32	158.1	6.48	405.1	4.30
Total	**4,941.73**	**5,339.51**	**397.8**	**8.05**	**708.8**	**3.69**

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.

2.22 Following the peak in value presented within the Quarter 1 report, the Capital Values of both funds have since seen a reduction over the course of Quarter 2, with funds now showing a capital loss for the year. Despite this however, both funds are still showing a combined capital gain on their initial purchase price. At the end of Q2 2022/23 the funds have demonstrated a combined capital loss of £120.2k so far for the year, and a gain of £397.8k over initial purchase price. Both funds have also continued to generate a positive revenue return, amounting to £84.5k over the course of the year by the end of quarter 2.

2.23 Due to a heightened level of redemption requests in June 2022, spurred by a structural change with UK Defined Benefit Pension Schemes, coupled with the current uncertainty in the financial markets, uncertainty that has seen many investors temporarily halting any further investments until further clarity on investment rates is received, BlackRock UK Property Fund has taken the temporary decision to defer any redemption requests that were received in Q2 2022. This move has been taken by BlackRock and other Property Fund Services in order to avoid the forced selling of assets within the fund to satisfy the redemption requests. This move was taken to safeguard the interests of those with longer term interests in the fund, such as Selby District Council. No timescale for the lifting of the temporary deferment is yet in place, though initial indications have been given that the deferment will be in place for at least a few quarters.

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 well over the quarter, with strong revenue returns achieved against budgets set. This has been driven by the sustained increases in the Bank Base Rate which will translate into continued increasing investment returns for the coming year.

5.2 After the sustained period of Capital growth that has been reported since the midst of the Covid-19 Pandemic, the Council's Property Fund investments have since seen a decrease in Capital Value over the course of the quarter. Despite this however, both funds continue to present a growth in capital value over their initial purchase price. Both funds also continue to generate revenue returns. These investments are intended to be longer term in nature and as such their strong capital growth will not impact on the General Fund until units in the funds are sold, with any change in value (up or down) until that point held on the Balance Sheet in an unusable reserve.

5.3 The Council's debt position is in line with expectations set out in the Strategy. Opportunities to ensure the optimisation of the Council's Debt Portfolio will remain under review, however at present no changes are expected, either via the early resettlement of existing debt or the raising of further borrowing.

5.4 The Council operated within approved Strategy Indicators over the course of 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 during Q2 2022/23 have not highlighted any concerns.

6. Background Documents

None.

7. Appendices

Appendix A – Prudential Indicators as at 30 September 2022

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