Meeting:	Executive
Meeting date:	14/09/2023
Report of:	The Chief Finance Officer
Portfolio of:	Executive Member for Finance & Performance

Decision Report: Treasury Management Update Quarter Ended 30th June 2023

Subject of Report

1. The purpose of this report is to provide a regular update to the Executive on treasury management activity for the first quarter of the year and provide the latest estimates for the prudential indicators as given in Annex A to this report.

Policy Basis for Decision

2. The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management recommends that Members be updated quarterly on treasury management activities.

3. This report, therefore, ensures this Council is implementing best practice in accordance with the Code.

Recommendation and Reasons

4. Executive is asked to:
    - Note the performance of treasury management activity for the quarter ended 30th June 2023.
    - Note the latest Prudential Indicators set out at Annex A.

Reason: To enable the continued effective operation of the treasury management function and ensure that all Council treasury activity is prudent, affordable and sustainable and complies policies set.

Background

5. The Treasury Management function is responsible for the effective management of the Council's investments, cash flows, banking, and money market transactions. It also considers the effective control of the risks associated with those activities and ensures optimum performance within those risk parameters.

6. This quarterly report has been prepared in compliance with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management, and covers the following:
   - A brief economic update for the quarter;
   - A review of the Council's investment strategy and portfolio;
   - A review of the Council's borrowing strategy and portfolio;
   - The latest Prudential Indicators set out at Annex A;
   - A review of compliance with the Treasury and Prudential Limits.

Economic Update & Interest Rate Forecast

7. Current interest rates and the future direction of both long term and short term interest rates have a major influence on the overall treasury management strategy and affects both investment and borrowing decisions. In terms of borrowing, PWLB rates are based on gilt (UK Government bonds) yields through HM Treasury determining a specified margin to add to gilt yields.

8. Gilt yields and PWLB rates were on a rising trend between 1st April 2023 and 30th June 2023. The main influences on gilt yields are Bank Rate, inflation expectations and movements in US treasury yields. As a general rule, short-dated gilt yields will reflect expected movements in Bank Rate, whilst medium to long-dated yields are driven primarily by the inflation outlook. Table 1 below gives Link Asset Services forecast for Bank rate and PWLB certainty rates, gilt yields plus 80 bps.

	Bank rate %	PWLB borrowing rates % (including certainty rate adjustment)		
		5 year	25 year	50 year
Jun 2023	5.00	5.50	5.30	5.00
Dec 2023	5.50	5.30	5.20	5.00
Jun 2024	5.25	4.80	4.90	4.70
Dec 2024	4.25	4.20	4.50	4.30
Jun 2025	3.25	3.60	4.00	3.80
Dec 2025	2.75	3.30	3.80	3.60
Jun 2026	2.50	3.20	3.70	3.50

Table 1 – Link's interest rate forecast as at 26th June 2023

9. At the start of quarter 1 2023/24 Bank Rate was 4.25%. On 11th May 2023, the Bank of England's Monetary Policy Committee (MPC) increased Bank Rate by 25 basis points to 4.50%, and on 22nd June 2023 moved rates up a further 50 basis points to 5.00% as UK inflation was the highest of the G7 countries.

10. In terms of economic outlook, the overall balance of risks to economic growth in the UK is to the downside and these downside risks for the UK gilt market and PWLB rates include labour and supply shortages, the impact of interest rate rises continuing too quickly or going too far, trade flows and trade arrangements, and geopolitical risks. Upside risks include interest rate rises not going far enough leading to inflation remaining for a longer period, the pound weakening due to a lack of confidence in the UK governments fiscal policy, and impacts of US treasury policy.

Investment Strategy Update

11. Full Council approved the Treasury Management Strategy Statement for 2023/24 on 23rd February 2023 which can be viewed here https://democracy.york.gov.uk/ieListDocuments.aspx?CId=331&MId=13284 and this included the Annual Investment Strategy.

12. The Council's Annual Investment Strategy, which is incorporated in the Strategy, outlines the Council's investment priorities as follows:
    - Security of capital
    - Liquidity
    - Yield

- Ethical, Social & Governance (using the FTSE4GOOD index, or any suitable alternative responsible investment index or information)

13. The Council continues to aim to achieve the optimum return (yield) on investments commensurate with the proper levels of security and liquidity and the Councils risk appetite.

14. There are no investment policy changes and the details in this report do not amend the Statement.

Investment Portfolio

15. Investment returns have improved in first quarter ending 30th June 2023 due to increases in the Bank of England Base Rate and with further increases expected in 2023/24 this trend should continue. However, this is dependent on the level of cash held for investment purposes, cash backed reserves and cash flow requirements. The policy of avoiding new borrowing by running down spare cash balances to fund the capital programme has served well over the last few years, and as such it may be that, as cash is kept in more liquid short-term investments, returns are not as high as market averages.

16. The average level of cash balances available for investment purposes in the first quarter ending 30th June 2023 was £31.153m (£37.633m for quarter ending 31st March 2023).

17. The level of cash balances available is largely dependent on the timing of the Council's cash flow as a result of precept payments, receipt of grants, receipt of developer contributions, borrowing for capital purposes, payments to its suppliers of goods and services and spend progress on the Capital Programme. These funds are therefore only available on a temporary basis depending on cash flow movement.

18. There has been a decrease in average cash levels due to cash being used to support the Council's capital programme spending and no additional borrowing for capital being taken in 2022/23. The policy of using cash to delay long-term borrowing is kept under review.

19. Investment return (calculated as the amount of interest earned on invested cash for the period) during the first six months of 2022/23 is shown in table 2:

	2022/23 (full year)	**2023/24 (Quarter 1 only)**
Average CYC Rate of Return	2.02%	4.29%
Benchmarks		
Average Overnight SONIA	2.24%	4.37%
Average 7 day Backward Looking SONIA	2.23%	4.34%

Table 2: CYCs investment rate of return performance vs. SONIA benchmark

20. The average rate of return achieved in the first quarter of 2023/24 has continued to increase and this is expected as the Bank of England continues to raise base rate. The Council has been keeping cash in highly liquid Money Market Funds which provide instant access to cash and therefore has used the average overnight SONIA rate to compare it's return too. There is a slight time lag between the interest earned from investing in these Money Market Funds compared to the base rate and overnight SONIA as Money Market Funds adjust their portfolios in a rising interest rate environment.

21. Opportunities for longer term investments at higher yields are now becoming more prevalent, however as stated above the Council is using its cash balances to delay taking on long-term borrowing. Opportunities that arise for notice and fixed investments are considered in terms of the Councils short to medium term cash flow requirement and under borrowed position.

22. Figure 1 shows the average SONIA rates for a number of investment durations compared with the Bank of England base rate and the rate of return that the Council has achieved on invested cash for the first six months of 2022/23. It shows that the Councils average rate of return on its instant access cash has been steadily increasing for the first six months of the year on the same trend as the Bank of England base rate and the average overnight SONIA and average 7

day backward looking SONIA rates whilst ensuring the required liquidity and security of funds for the Council.

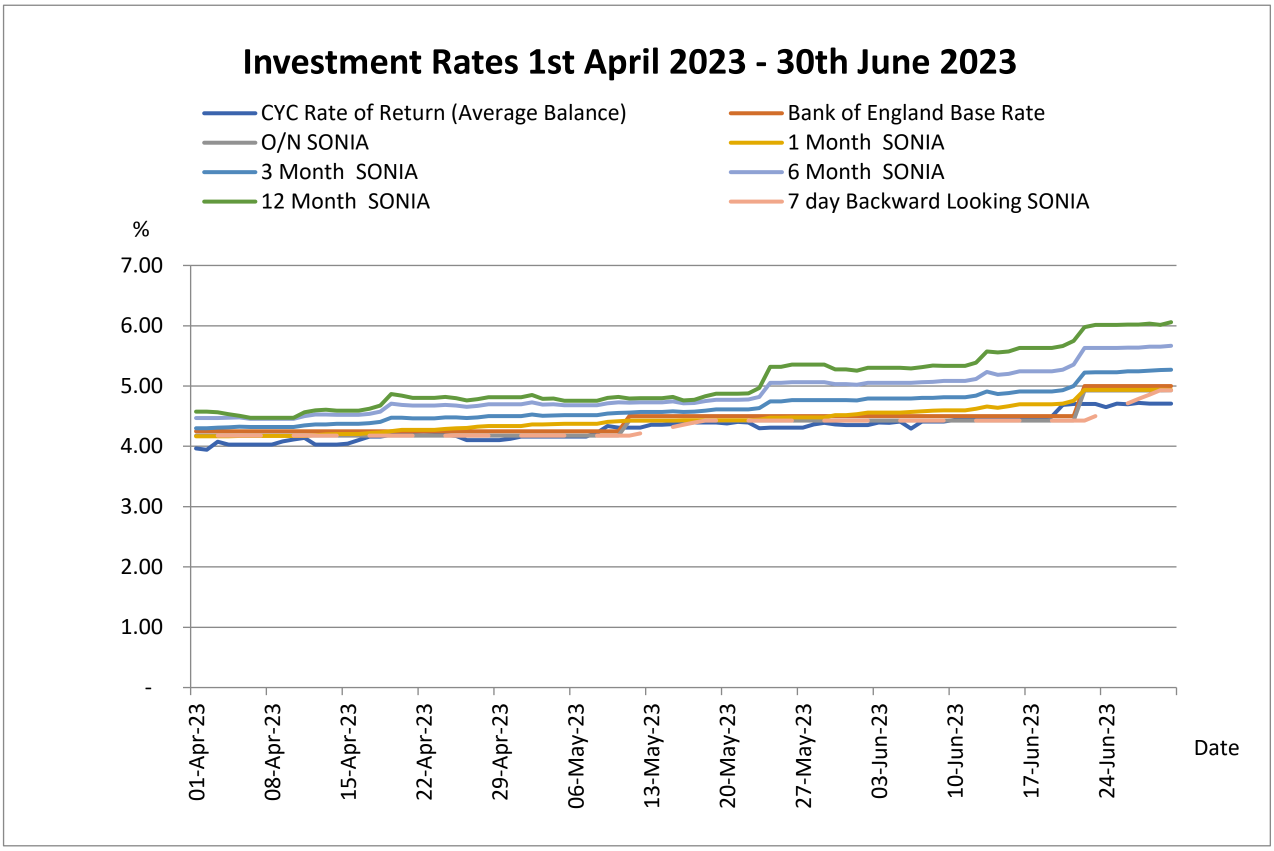

Figure 1 CYC Investments vs Bank of England base rate and SONIA up to 30th June 2023

23. Table 3 shows the current fixed term investments at the quarter ended 30th June 2023.

Institution Type	Principal 30/06/23	Average Principal Q1	Average Rate Q1
Fixed Term Deposits	£0.00m	£0.00m	0.00%
Call / Notice	£0.00m	£0.00m	0.00%
Money Market Funds	£19.00m	£30.67m	4.36%
Cash in bank	£0.44m	£0.48m	0.00%
Total Investments	£19.44m	£31.15m	4.29%

Table 3: Investment Portfolio by type at 30th June 2023

24. Figure 2 shows the investments portfolio split by cash in bank, deposits in short term call accounts, fixed term investments and

Money Market Funds. All of the Money Market Funds have an AAA credit rating and the cash bank account is A+.

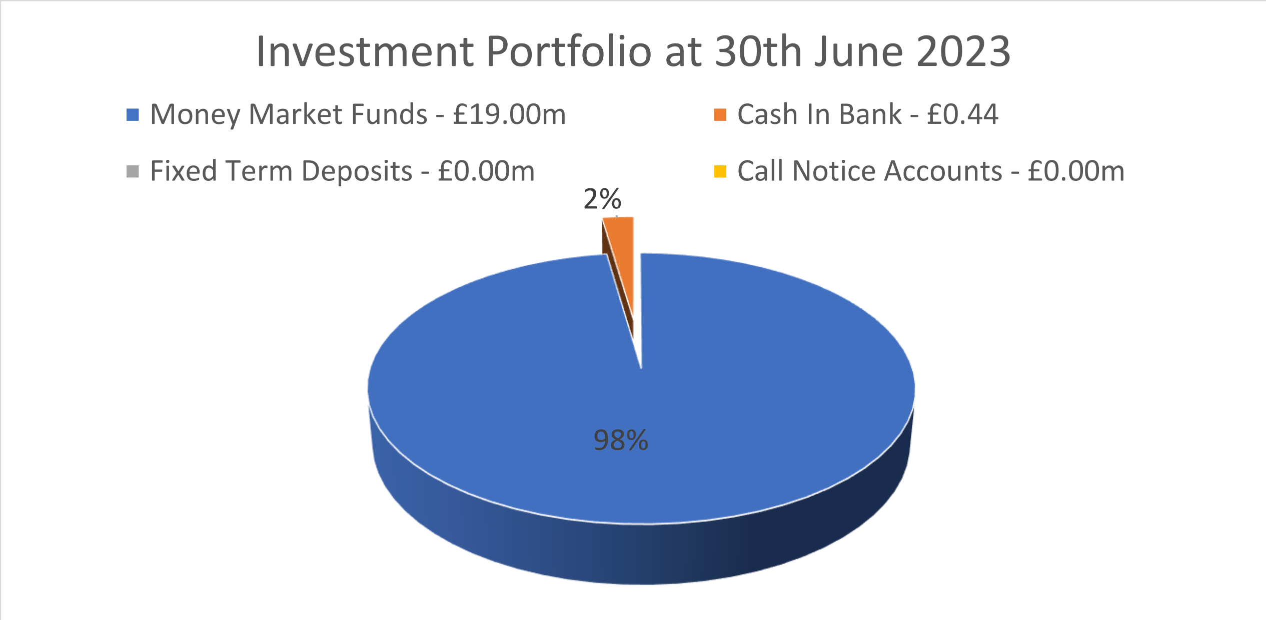

Figure 2 Investment Portfolio by type at 30th June 2023

Borrowing Strategy Update

25. The Council undertakes long-term borrowing in accordance with the investment requirements of the capital programme and all borrowing is therefore secured for the purpose of its asset base.

26. The level of borrowing taken by the Council is determined by the Capital Financing Requirement (the Councils underlying need to borrow for capital expenditure purposes). Borrowing needs to be affordable, sustainable and prudent.

27. Under regulation, the Council can borrow in advance of need and Markets are therefore constantly monitored and analysed to ensure that advantage is taken of favourable rates and the increased borrowing requirement is not as dependant on interest rates in any one year.

28. On the reverse side, the Council's level of borrowing can also be below the Capital Financing Requirement. This would mean that instead of increasing the Council's level of borrowing, surplus funds held for investment purposes would be utilised.

29. The borrowing strategy takes into account the borrowing requirement, the current economic and market environments and is also influenced by the interest rate forecast. The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This can be seen on the Councils Liability Benchmark graph as shown by the gap between the loans outstanding and CFR.

Borrowing Portfolio

30. The Councils long-term borrowing portfolio position at the quarter ending 30th June 2023 totalled £301.265m.

Institution Type	Principal	Average Rate
Public Works Loan Board PWLB (60) – Money borrowed from the Debt Management Office (HM Treasury)	£293.9m	3.21%
Market Loans LOBO Loans (1) – Lender Option Borrower Option	£5.0m	3.88%
West Yorkshire Combined Authority WYCA (4) – Zero interest loans the purpose of which are to help to fund York Central infrastructure projects	£2.4m	0.00%
Total Gross Borrowing (GF & HRA)	£301.3m	3.18%

Table 4 Current position at 30th June 2023

31. The Council had £301.265m of fixed interest rate debt, of which £146.359m was HRA (£121.550m self-financing debt) and £154.906m General Fund.

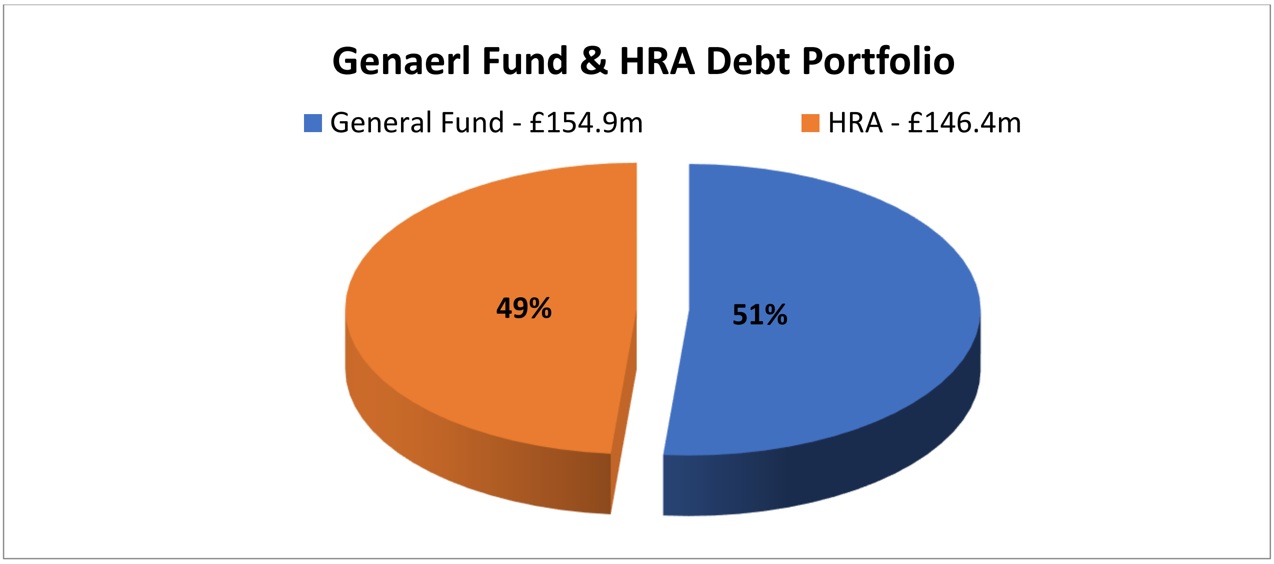

Figure 4 General Fund and HRA debt at 30th June 2023

32. No new loans have been taken during-the first quarter ending 30th June 2023 and no loans have matured or been refinanced. There are 5 scheduled repayments of long-term borrowing that will occur this financial year 2023/24 totalling £6.2m.

Lender	Issue Date	Repayment Date	Amount	Rate	Duration (years)
PWLB	23/11/2000	05/11/2023	£3,000,000.00	4.75%	22.95
PWLB	03/04/2001	05/11/2023	£1,000,000.00	4.75%	22.59
PWLB	15/11/2001	28/02/2024	£114,956.00	4.50%	22.29
PWLB	15/11/2001	28/02/2024	£200,000.00	4.50%	22.29
PWLB	28/03/2012	31/03/2024	£1,900,000.00	2.76%	12.01
			£6,214,956.00		

Table 5 Maturing loans in 2023/24

33. Figure 3 illustrates the 2023/24 maturity profile of the Council's debt portfolio at 30th June 2023. The maturity profile shows that there is no large concentration of loan maturity in any one year, thereby spreading the interest rate risk dependency.

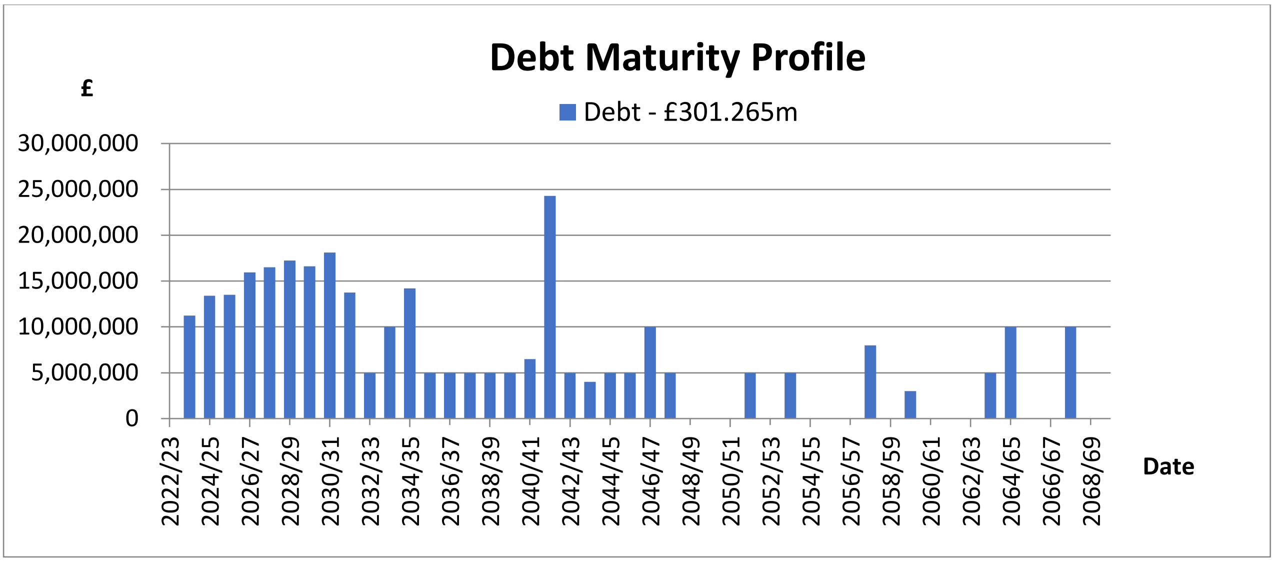

Figure 3 – Debt Maturity Profile at 30th June 2023

34. Should new debt need to be taken in 2023/24, the timing of when that debt is drawn down will depend on the progress of the capital programme. Where greater value can be obtained in borrowing for shorter maturity periods the Council will assess its risk appetite in conjunction with budgetary pressures to minimise total interest costs. Temporary borrowing, including inter authority borrowing, is another borrowing option. Longer-term borrowing could also be undertaken for the purpose of certainty, where that is desirable, or for smoothing the maturity profile of debt repayments.

35. Table 6 shows PWLB Certainty borrowing rates available for selected loan durations between 1st April 2023 and 30th June 2023 at the highest, lowest and average rates.

	PWLB Certainty borrowing rates by duration of loan				
	1 Year	**5 Year**	**10 Year**	**25 Year**	**50 Year**
High	6.24%	5.71%	5.28%	5.44%	5.23%
Low	4.65%	4.14%	4.20%	4.58%	4.27%
Average	5.32%	4.87%	4.78%	5.09%	4.82%

Table 6 PWLB Borrowing Rates 1st April 2023 to 30th June 2023

Compliance with Treasury policy Prudential Indicators

36. The Prudential Indicators for 2023/24 included in the Treasury Management Strategy Statement are based on the requirements of the Council's capital programme and approved at Budget Council on 23rd February 2023 and can be viewed here https://democracy.york.gov.uk/ieListDocuments.aspx?CId=331&MId=13284. An update of the Prudential Indicators is shown in Annex A.

37. It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. During the quarter ended 30th June 2023 the Council has operated within the treasury and Prudential Indicators set out in the Council's Treasury Management Strategy Statement for 2023/24.

Consultation Analysis

38. Treasury Management strategy and activity is influenced by the capital investment and revenue spending decisions made by the Council. Both the revenue and capital budgets have been through a corporate process of consultation and consideration by the elected politicians.

Options Analysis and Evidential Basis

39. The report shows the latest quarterly position of the treasury management portfolio at quarter ending 30th June 2023 and is for the review of the Executive Member for Finance and Performance to show compliance with treasury policy and ensure the continued performance of the treasury management function.

Organisational Impact and Implications

40. The treasury management function aims to achieve the optimum return on investments commensurate with the proper levels of security, and to minimise the interest payable by the Council on its debt structure. It thereby contributes to all Council Plan priorities.

- ***Financial*** - The financial implications are in the body of the report.

- ***Human Resources (HR)*** - None.

- ***Legal*** – Treasury management activities have to conform to the Local Government Act 2003, the Local Authorities (Capital; Finance and Accounting) (England) Regulations 2003 (SI 2003/3146), which specifies that the Council is required to have regard to the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice and also the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 (SI 2008/414), which clarifies the requirements of the Minimum Revenue Provision guidance.

- ***Procurement*** - None

- ***Health and Wellbeing*** - None.

- ***Environment and Climate action*** - None

- ***Affordability*** - None

- ***Equalities and Human Rights***, *n/a*

- ***Data Protection and Privacy,*** *n/a*

- ***Communications*** - None.

- ***Economy*** - None.

- ***Specialist Implications Officers*** - None.

Risks and Mitigations

41. The Treasury Management function is a high-risk area because of the volume and level of large money transactions. As a result, there are procedures set out for day to day treasury management operations that aim to reduce the risk associated with high volume high value transactions. These are detailed in the Treasury Management Strategy Statement at the start of each financial year.

Wards Impacted

All

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Background papers

None

Annexes

Annex A – Prudential Indicators 2023/24 Qtr 1 (30.06.23)

Glossary of Abbreviations used in the report:

CIPFA	Chartered Institute of Public Finance & Accountancy
CFR	Capital Financing Requirement
CYC	City of York Council
DLUHC	Department for Levelling Up, Housing and Communities

GF	General Fund
HRA	Housing Revenue Account
MPC	Monetary Policy Committee
MRP	Minimum Revenue Provision
PWLB	Public Works Loan Board
SONIA	Sterling Overnight Index Average