CITY OF YORK COUNCIL

Executive **26 November 2020**

Report of the Chief Finance Officer

Portfolio of the Executive Member for Finance and Performance

Treasury Management Mid-Year Review and Prudential Indicators 2020/21

Summary

1. The Council is required through legislation to provide members with a mid-year update on treasury management activities. This report provides an update on activity for the period 1 April 2020 to 30 September 2020.

Recommendations

2. Members are required, in accordance with the Local Government Act 2003 (revised), to:
   - Note the Treasury Management activities to date in 2020/21
   - Note the Prudential Indicators set out at Annex A and note the compliance with all indicators.

   Reason: to ensure the continued performance of the Council's Treasury Management function.

Background

3. 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.

4. This mid-year report has been prepared in compliance with the Chartered Institute of Public Finance and Accountancy's (CIPFA) CIPFA's Code of Practice on Treasury Management, and covers the following:
   - An economic update for the first part of the 2020/21 financial year;
   - A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
   - The prudential indicators;

- A review of the Council's investment portfolio;
- A review of the Council's borrowing strategy;
- A review of compliance with the Treasury and Prudential Limits.

Interest Rate Forecast

5. Table 1 is Link Asset Services Interest Rate forecast for both the bank rate and long term Public Works Loans Board borrowing rates (note all figures are percentages):

	Dec 20	Mar 21	Jun 21	Sep 21	Dec 21	Mar 22	Jun 22	Sep 22	Dec 22	Mar 23
Bank Rate	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
5 Yr PWLB rate	1.90	2.00	2.00	2.00	2.00	2.00	2.10	2.10	2.10	2.10
10 Yr PWLB rate	2.10	2.10	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.30
25 Yr PWLB rate	2.50	2.50	2.50	2.60	2.60	2.60	2.70	2.70	2.70	2.70
50 Yr PWLB rate	2.30	2.30	2.30	2.40	2.40	2.40	2.50	2.50	2.50	2.50

Table 1: Link Asset Services Interest Rate Forecast (%)

6. The coronavirus outbreak has done huge economic damage to the UK and economies around the world. After the Bank of England took emergency action in March to cut Bank Rate to first 0.25%, and then to 0.10%, it left Bank Rate unchanged at its meeting on 6th August (and the subsequent September meeting), although some forecasters had suggested that a cut into negative territory could happen. However, the Governor of the Bank of England has made it clear that he currently thinks that such a move would do more damage than good and that more quantitative easing is the favoured tool if further action becomes necessary. As shown in the forecast table above, no increase in Bank Rate is expected within the forecast horizon ending on 31st March 2023 as economic recovery is expected to be only gradual and, therefore, prolonged.

7. The MPC acknowledged that the "medium-term projections were a less informative guide than usual" and the minutes had multiple references to

downside risks, which were judged to persist both in the short and medium term. The way in which second waves of the virus are now impacting many countries including Britain, highlights the dangers. Initially it was expected that, rather than a national lockdown as in March, any spikes in virus infections were more likely to be dealt with by localised measures and that this would limit the amount of economic damage caused. However, subsequently a second lockdown was announced on 31st October. In addition, Brexit uncertainties ahead of the year-end deadline are likely to be a drag on recovery. However, the Chancellor has made a number of announcements recently regarding further packages of support for businesses. There was also further help for the self-employed, freelancers and the hospitality industry.

8. The last three months of 2020 are now likely to show no growth as consumers will probably remain cautious in spending and uncertainty over the outcome of the UK/EU trade negotiations concluding at the end of the year.

9. There will be some painful longer term adjustments as e.g. office space and travel by planes, trains and buses may not recover to their previous level of use for several years, or possibly ever. There is also likely to be a reversal of globalisation as this crisis has shown up how vulnerable long-distance supply chains are. On the other hand, digital services is one area that has already seen huge growth.

Annual Investment Strategy Update

10. Council approved the Treasury Management Strategy Statement for 2020/21 on 27 February 2020. There are no policy changes and the details in this report do not amend the Statement.

11. 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
    - FTSE4Good index

12. 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.

Investment Portfolio

13. The average level of cash balances available for investment purposes in the first 6 months of 2020/21 was £20.272m (£61.336m for the same 6 month

period in 19/20). 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 developers 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.

14. The average level of cash balances has decreased compared to a year ago due to a number of factors. These include a number of delayed capital schemes now-progressing.

15. As previously identified, cash balances have decreased as profiled and therefore the Council has begun to take on long term debt to finance the Councils capital programme.

16. Investment return (calculated as the amount of interest earned against the average cash balance for the period) during the first six months of 2020/21 is shown in table 2:

	2019/20 (full year)	**2020/21 (part year to date)**
Average CYC Rate of Return	0.74	0.25
Benchmarks		
Average 7 Day LIBID	0.53	-0.06
Average 1 Month LIBID	0.56	-0.02

Table 2: CYCs investment rate of return performance vs. benchmarks

17. The average rate of return achieved to date in 2020/21 has decreased compared to the average seen in 2019/20, due to the change in bank rate.

18. It remains a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates continue to be very low and in line with the current 0.1% Bank Rate. Given that no increases in Bank Rate are anticipated in the next few years and are unlikely to return to the levels seen in previous decades, investment returns are likely to remain low.

19. Figure 1 shows the interest rates available on the market based on LIBID rates between 7 days and 1 year and also the rate of return that the Council has achieved for the first six months of 2020/21. It shows that favourable /

competitive interest rates have been obtained for investments whilst ensuring the required liquidity and security of funds for the Council.

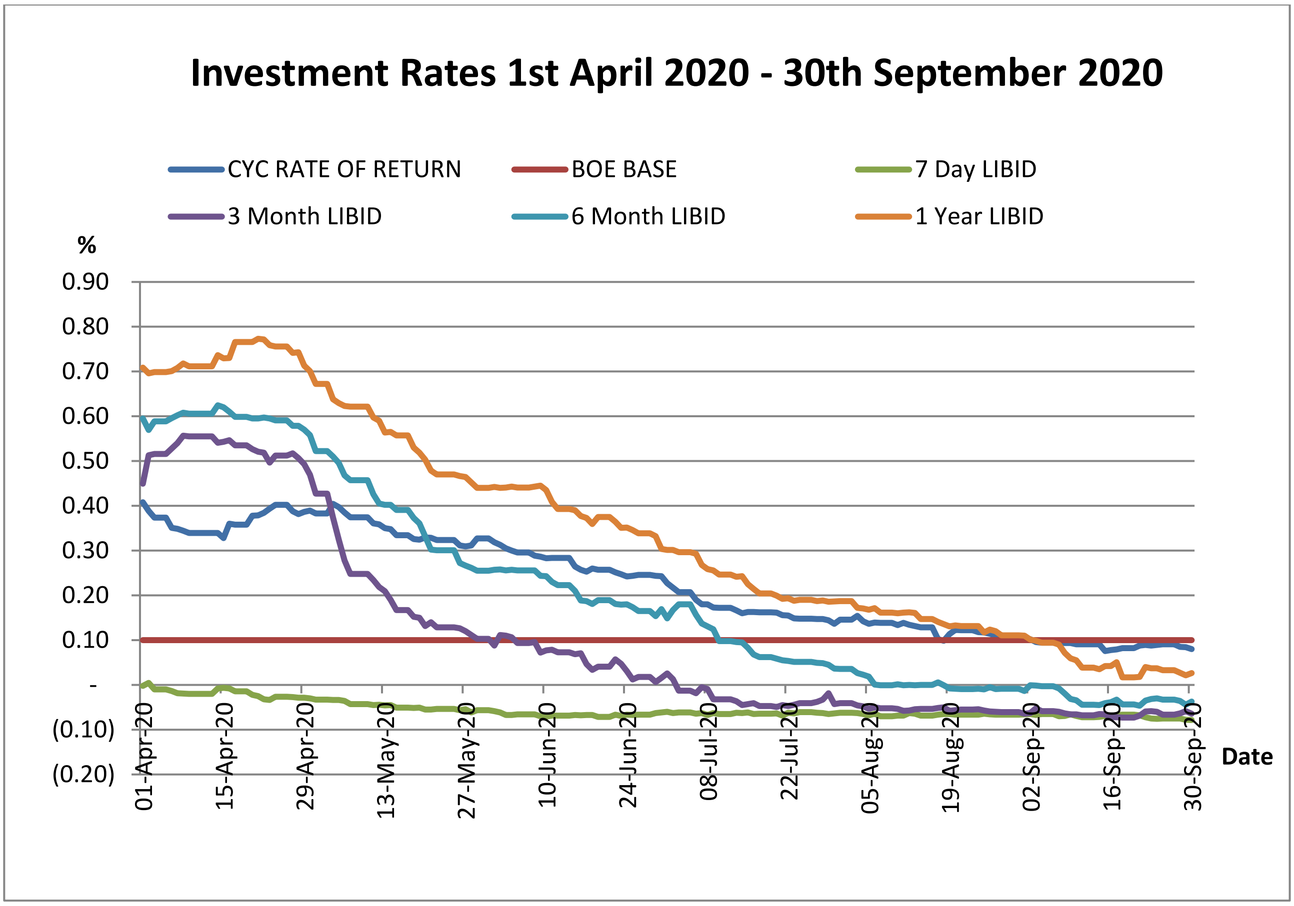

Figure 1 CYC Investments vs Money Market Rates up to 30th September 2020

20. Figure 2 shows the investments portfolio split by cash in bank, deposits in short term call accounts, fixed term investments and money market funds (MMFs).

21. All of the money market funds have an AAA credit rating and cash in the bank account is AA-.

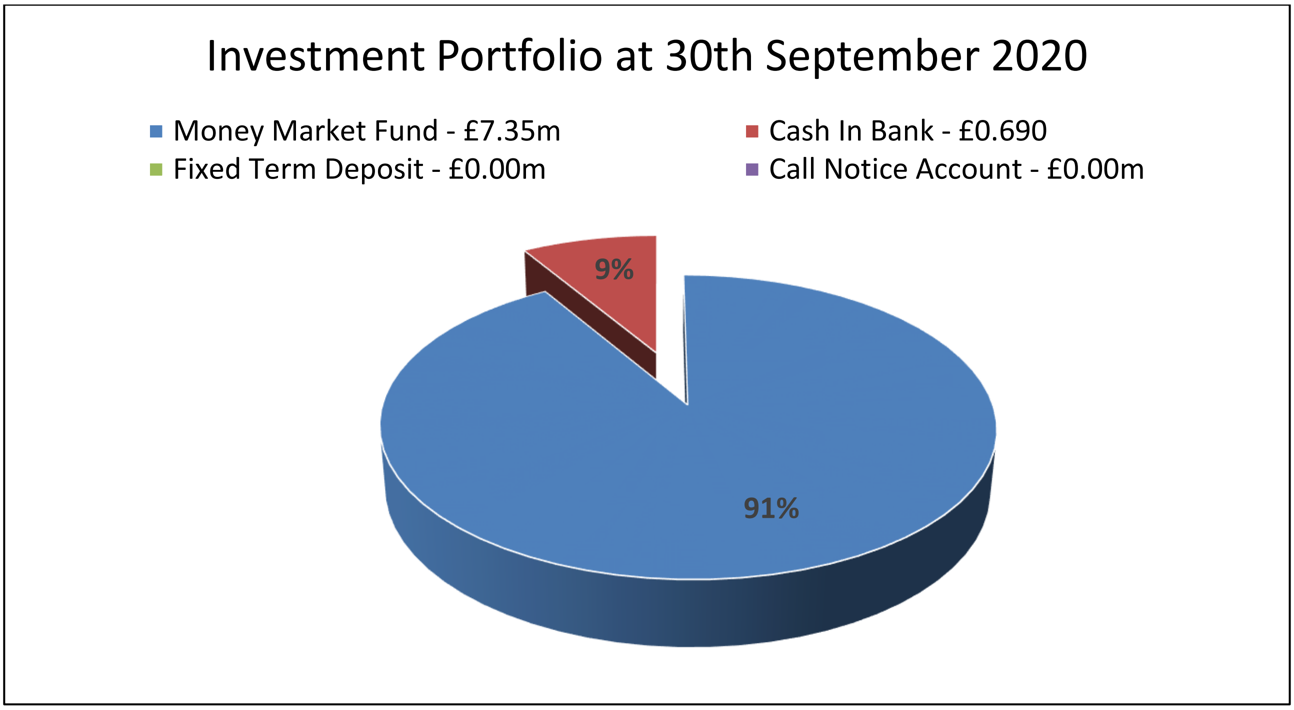

Figure 2 Investment Portfolio by type at 30th September 2020

Borrowing Portfolio

22. 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.

23. 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.

24. 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.

25. 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. In the current interest rate environment, where investment rates on holding investments are significantly below borrowing rates, consideration is given to the value of taking borrowing or whether it is better for the council to keep investment balances lower.

26. The finance team continues to closely monitor the opportunities that arise and receive daily updates from Link Asset Services in respect of borrowing timings and amounts. Two new loans have been taken during this period.

27. The Councils long-term borrowing started the year at a level of £256.465m. On 5th May 2020 a £5m PWLB loan was repaid taking the Councils long-term borrowing figure to £251.465m. A further £5m PWLB loan repayment will be made on 9th November. On 28th May 2020 a new £5m PWLB loan was taken and on 29th September a new £5m PWLB loan was taken. This takes the Councils long-term borrowing figure to £261.465m. The Housing Revenue Account settlement debt amount is 56% of the borrowing portfolio (£146.359m) and the General Fund debt is 42% (£115.106m).

28. Figure 3 illustrates the 2020/21 maturity profile of the Council's debt portfolio at 30th September 2020. The maturity profile shows that there is no large concentration of loan maturity in any one year, thereby spreading the interest rate risk dependency.

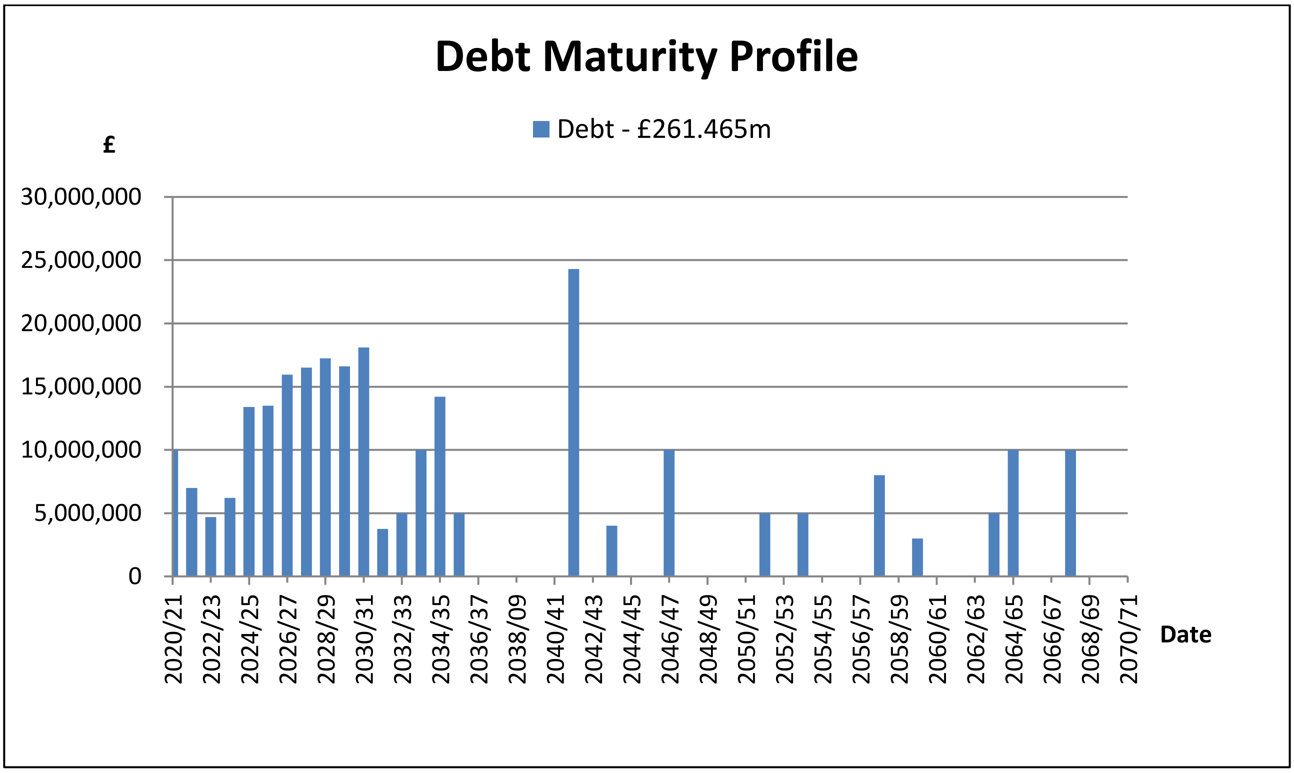

Figure 3 – Debt Maturity Profile at 30th September 2020

29. Table 3 shows PWLB Certainty borrowing rates available for selected loan durations.

	PWLB Certainty borrowing rates by duration of loan				
	1 Year	**5 Year**	**10 Year**	**25 Year**	**50 Year**
Yr High	1.94	2.00	2.23	2.80	2.65

Yr Low	1.70	1.68	1.94	2.40	2.13
Yr Avg	1.80	1.81	2.07	2.54	2.32

Table 3 – PWLB Borrowing Rates (%) – to 30th September 2020

Compliance with Prudential Indicators

30. The Prudential Indicators for 2020/21 included in the Treasury Management Strategy Statement are based on the requirements of the Council's capital programme and approved at Budget Council on 27 February 2020.

31. It is a statutory duty for the Council to determine and keep under review the "Affordable Borrowing Limits" included in the Prudential Indicators. The monitoring of the Prudential Indicators is attached at Annex A. During the financial year 2020/21 to date the Council has operated within the treasury limits and Prudential Indicators set out.

Consultation and Options

32. The report shows the six month position of the treasury management portfolio in 2020/21. The treasury management budget was set in light of the council's expenditure plans and the wider economic market conditions, based on advice from Link Asset Services. It is a statutory requirement to provide the information detailed in the report.

Council Plan

33. 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 implications

34. The financial implications are in the body of the report.

Legal Implications

35. 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.

Other Implications

36. There are no crime and disorder, information technology, property, equalities, human resources or other implications because of this report.

Risk Management

37. The Treasury Management function is a high-risk area because of the level of large money transactions that take place. 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.

Contact Details

Authors:	**Chief Officer Responsible for the report:**			
Debbie Mitchell Chief Finance Officer 01904 554161	Debbie Mitchell Chief Finance Officer			
	Report Approved	*x*	**Date**	12.11.2020
Wards Affected: *All*				
For further information please contact the author of the report				

Specialist Implications**:**
Legal – Not Applicable
Property – Not Applicable
Information Technology – Not Applicable

Annexes

Annex A – Prudential Indicators 2020/21

Annex 1

Glossary of Abbreviations used in the report:

LIBID	London Interbank Bid Rate
PWLB	Public Works Loans Board