

Meeting:	Executive
Meeting date:	12/09/2024
Report of:	Debbie Mitchell Director of Finance
Portfolio of:	Councillors Katie Lomas & Anna Baxter Executive Members for Finance, Performance, Major Projects, Human Rights, Equality & Inclusion

Decision Report: Treasury Management 2024/25 Quarter 1 report and review of Prudential Indicators

Subject of Report

1. The purpose of this report is to provide a regular update to the Executive Member for Finance on treasury management activity for the first quarter of the 2024/25 financial year and to provide the latest update of the prudential indicators which are included at Annex A to this report.

Benefits and Challenges

2. Treasury Management is the effective management of the Council's cash flow. Doing this effectively protects the Council from risks and ensures the ability to meet spending commitments as they fall due.

Policy Basis for Decision

3. The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management 2021 requires that full Council be updated with, review and approve, as a minimum three reports annually. These reports are the Treasury Management Strategy Statement setting out policy for the forthcoming year, a mid-year review report, and an annual report detailing the treasury activities and performance for the previous year. Quarterly reports are also required to provide an update on treasury

management activities and can be assigned to a designated committee or member as deemed appropriate.

4. This report is the Treasury Management quarterly report detailing the activities undertaken so far, performance, and monitoring of the Prudential Indicators. It provides an update on activity for the period 1st April 2024 to 30th June 2024. This report ensures this Council is implementing best practice in accordance with the Code.

Financial Strategy Implications

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.

Recommendation and Reasons

6. Executive is asked to note:
 - The 2024/25 treasury management activity up to the first quarter date ending 30th June 2024.
 - The Prudential Indicators outlined in Annex A (updated where applicable) and note the compliance with all indicators.

Reason: To ensure the continued effective operation and performance of the Council's Treasury Management function and ensure that all Council treasury activity is prudent, affordable and sustainable and complies with policies set.

7. It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. During the first quarter of the 2024/25 financial year, the Council has operated within the Treasury and Prudential Indicators set out in the Council's Treasury Management Strategy Statement for 2024/25.
8. There are no policy changes to the Treasury Management Strategy Statement 2024/25 for members to agree and approve; the details in this report update the Treasury Management position and Prudential Indicators in the light of the updated economic position and budgetary changes already approved.

Background

9. This quarterly treasury management 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 first quarter of the 2024/25 financial year.
 - A review of the Treasury Management Strategy Statement and Annual Investment Strategy.
 - A review of the treasury position as at 30th June 2024.
 - 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.
 - An update to the prudential indicators (set out at Annex A).

Economic Update

10. The first quarter of the 2024/25 financial year saw:
- The Bank of England base rate maintained at 5.25% in May and June.
 - CPI inflation falling from 2.3% in April to 2.0% in May. (In line with the Bank's 2% target for the first time since July 2021).
 - Core CPI inflation decreasing from 3.9% in April to 3.5% in May.
 - UK GDP flatlining in April following positive growth of 0.7% in quarter 4 2023/24.
 - A stalling of downward trend in wage growth.
 - A degree of volatility in the gilt market, 10 year gilt yields climbing to 4.35% in April, before closing out at 4.15% in June.
 - On 1st August 2024 the Bank of England's Monetary Policy Committee (MPC) announced it had voted by a majority of 5–4 to cut the base rate by 0.25% from 5.25% to 5.00%.
11. In its latest monetary policy meeting ending on 31st July 2024, the Bank of England's Monetary Policy Committee (MPC) voted by a majority of 5–4 to cut the base rate by 0.25% from 5.25% to 5.00%. Previous to this cut, the Bank of England had left interest rates unchanged at 5.25% (since 3rd August 2023). Guidance from the Bank of England since August 2023 had been that Monetary policy would need to remain restrictive for sufficiently long to return inflation to the 2% target sustainably in the medium term to ensure that inflation does not become embedded above the 2% target in line with the MPC's remit reflecting the primacy of price stability in the UK monetary policy framework.
12. A summary of the MPC meeting from 1st August 2024 said that while inflation forecasts are expected to fall in the next two years, there remains a risk that inflationary pressures may prove more enduring in the medium term such as stronger than expected demand and structural factors including

unemployment which could affect domestic wage and price-setting more persistently. The vote was finely balanced, but it was felt appropriate to reduce the degree of policy restrictiveness as the impact from past external shocks had abated and there had been progress in moderating risks of persistence in inflation. It was reiterated that Monetary policy will need to continue to remain restrictive for sufficiently long until the risks to inflation returning sustainably to the 2% target in the medium term have dissipated further.

Interest Rate Forecast

13. 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.
14. Table 1 is Link Groups Interest Rate forecast for both the bank base rate and long-term Public Works Loans Board (PWL) Certainty borrowing rates (gilt yields plus 80 bps). This forecast was as at 28th May 2024. It was updated following the announcement of the Bank of England’s 0.25% rate cut on 1st August 2024, however no changes were made to forecasts from September 2024 through to March 2027 and these forecasts are still current.

	Bank rate %	PWL borrowing rates % (including certainty rate adjustment)			
		5 year	10 year	25 year	50 year
Jun 2024	5.25	4.90	5.00	5.30	5.10
Sep 2024	5.00	4.70	4.80	5.20	5.00
Dec 2024	4.50	4.50	4.60	5.00	4.80
Mar 2025	4.00	4.30	4.40	4.80	4.60
Jun 2025	3.50	4.10	4.30	4.70	4.50
Sep 2025	3.25	4.00	4.10	4.50	4.30
Dec 2025	3.25	3.90	4.10	4.50	4.20
Mar 2026	3.25	3.90	4.10	4.40	4.20
Jun 2026	3.25	3.90	4.00	4.40	4.20
Sep 2026	3.00	3.90	4.00	4.40	4.20
Dec 2026	3.00	3.90	4.00	4.30	4.10
Mar 2027	3.00	3.80	3.90	4.30	4.10

Table 1 – Link’s interest rate forecast as at 28th May 2024 (no changes to forecasts following 1st August 2024 MPC decision)

15. Market expectations in quarter 1 were that Bank Rate had reached its peak at 5.25% and the Bank of England Monetary Policy Committee (MPC) had held rates at 5.25% at the two meetings (9th May 2024 and 20th June 2024) during this quarterly report period. Inflation had fallen in the first quarter of 2024/25

but both inflation and labour data had proven sticky and Markets expectation of several rate cuts throughout 2024 gradually reduced. Markets views are that Bank Rate will start to decrease from 5.25% in the second half of 2024.

Treasury Management Strategy Statement 2024/25

16. Full Council approved the Treasury Management Strategy Statement for 2023/24 on 22nd February 2024. Details can be viewed here <https://democracy.york.gov.uk/ieListDocuments.aspx?CId=331&MID=13928#A167008> and here <https://democracy.york.gov.uk/ieListDocuments.aspx?CId=733&MId=13934&Ver=4>.
17. There are no investment policy changes and the details in this report do not amend the Statement.

Overall Treasury position at 30th June 2024

18. Table 2 shows the Councils net Treasury debt and investment position for the quarter end as at the 30th June 2024, shown with the financial year end 2023/24 position.

	30/06/24	30/06/24	31/03/2024	31/03/2024
	Principal	Average Rate	Principal	Average Rate
General Fund Borrowing	£185.79m	3.51%	£175.79m	3.42%
Housing Revenue Account (HRA) Borrowing	£149.26m	3.32%	£149.26m	3.31%
Total Borrowing	£335.05m	3.43%	£325.05m	3.37%
Other Long-term Liabilities	£43.29m		£41.74m	
Total External Debt	£378.34m		£366.79m	
Investment balance	£23.88m	5.06%	£5.04m	4.86%
Debt less Investments	£354.46m		£361.75m	

Table 2 Summary of the current treasury position as at 30th June 2024

Investment Portfolio

19. The Treasury Management Strategy Statement includes the Council's Annual Investment Strategy outlining the Council's investment priorities as follows:

- Security of capital
- Liquidity
- Yield

Environmental, Social & Governance (ESG) criteria, will be considered as a fourth criteria after the fulfilment of the three core investment priorities.

20. The Council’s investment policy is governed by DLUHC guidance and sets out the approach for choosing investment counterparties based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data, (such as rating outlooks, credit default swaps, bank share prices etc.). The Council will also consider environmental, social and governance factors when placing investments after the core investment priorities of security, liquidity and yield have been assessed.
21. 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. The Council had no liquidity difficulties during the first quarter of the 2024/25 financial year.
22. Investment returns the Council earns on its surplus cash is dependent on the level of cash held for investment purposes, cash backed reserves and cash flow requirements which is due to the timing 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. Cash balances are therefore only available on a temporary basis depending on cash flow movement.
23. The average level of cash balances available for investment purposes in the first quarter up to 30th June 2024 was £23.88m (£31.15m for quarter ending 30th June 2023). The average rate of return earned on cash balances in this period was 5.06% (4.29% for quarter ending 30th June 2023).
24. The Council uses a benchmark indicator to assess the Councils investment performance, and this is the average Sterling Overnight Index Average (SONIA). SONIA is based on actual transactions reflecting the average of the interest rates that banks pay to borrow sterling overnight.
25. The Council’s average rate of return for the quarter ending 30th June 2024 in table 3.

	2024/25 (Quarter 1)	2023/24 (Quarter 1)	2023/24 (Full year)
Average CYC Rate of Return	5.06%	4.29%	4.86%
<u>Benchmarks</u>			

Average Overnight SONIA	5.20%	4.37%	4.96%
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Table 3: CYCs investment rate of return performance vs. SONIA benchmark

26. The average rate of return achieved for invested cash during the first quarter of 2024/25 has remained below the average overnight SONIA rate due to the Council keeping cash in highly liquid Money Market Funds which provide instant access to cash.

27. Figure 1 shows the average SONIA rates for a number of investment durations compared with the Bank of England base rate and the Council's rate of return achieved in the first quarter of 2024/25. It shows that the Council's average rate of return is tracking lower than, but broadly in line with, both Bank base rate and overnight SONIA rate. This is expected as cash has been held in liquid funds.

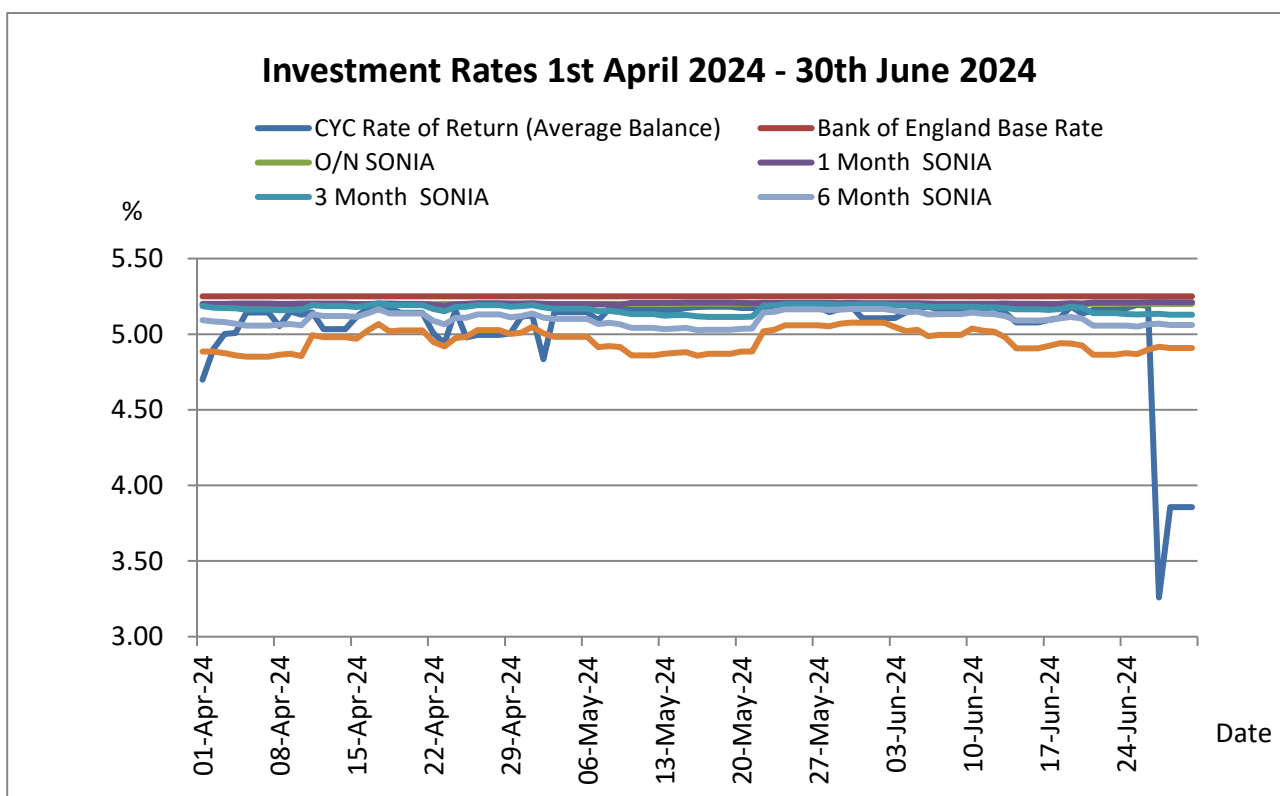


Figure 1 CYC Investments vs Bank of England base rate and SONIA up to 30th June 2024

28. Table 4 shows the current fixed term investments at 30th June 2024.

Institution Type	Principal Balance 31/03/24	Average Principal Balance	Average Rate
Fixed Term Deposits	£0.00m	£0.00m	0.00%
Call / Notice	£0.00m	£0.00m	0.00%

Money Market Funds	£16.00m	£23.17m	5.23%
Cash in bank	£5.73m	£0.70m	0.00%
Total Investments	£21.73m	£23.34m	5.06%

Table 4: Investment Portfolio by type at 30th June 2024

29. Figure 2 shows the investments portfolio split by cash in bank, deposits in short term call accounts, fixed term investments and Money Market Funds. Money Market Funds used have an AAAM credit rating and the cash bank account is AA- credit rating.

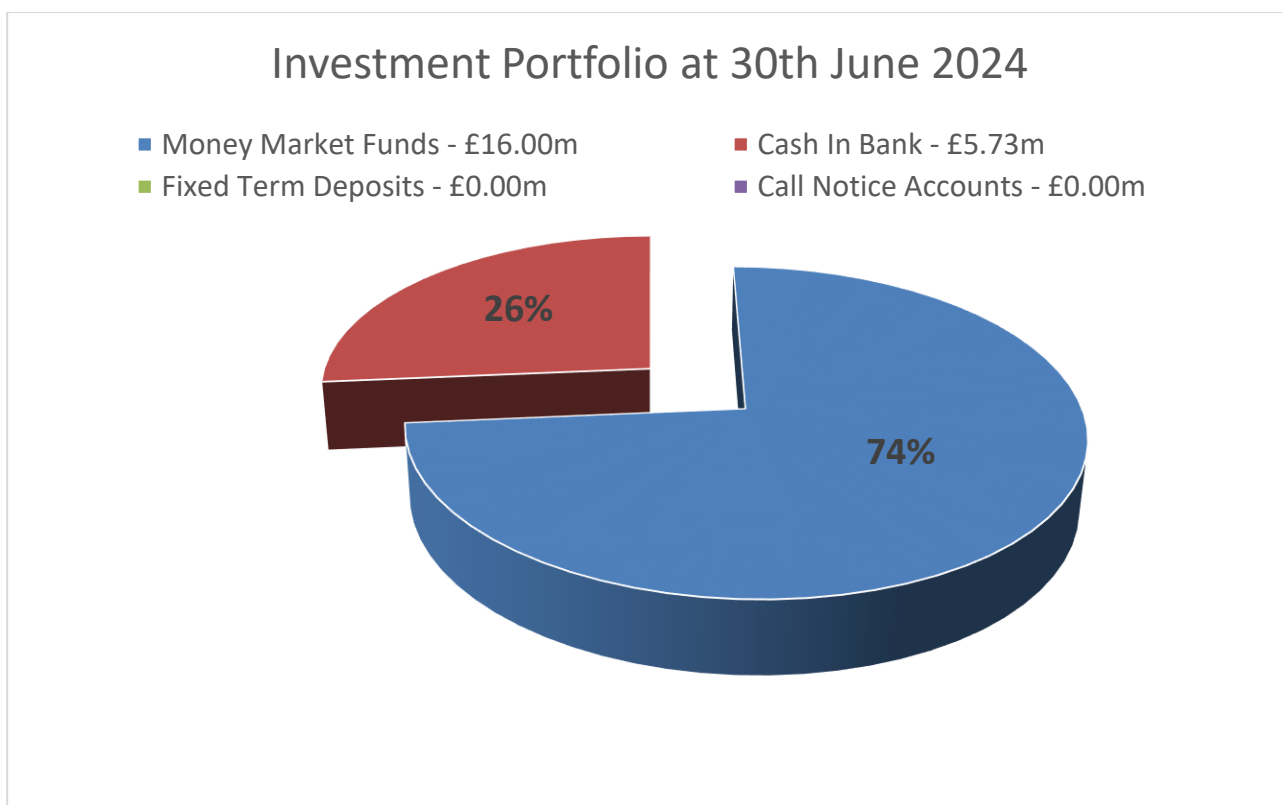


Figure 2 Investment Portfolio by type at 30th June 2024

30. The Council is using its cash balances to delay taking on long-term borrowing. The overall effect of using cash balances to support the Council's under borrowed CFR position is that as cash balances are used there is less cash available for longer term investment and cash balances are held in more liquid funds meaning lower interest returns.

31. Opportunities that arise for notice and fixed investments which could generate higher yields are considered in terms of the Councils short to medium term cash flow requirement and it's under borrowed CFR position.

Borrowing requirement and debt at 30th June 2024

32. 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.
33. 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.
34. 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.
35. 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.
36. Table 5 shows the Council's underlying need to borrow to finance capital expenditure and is termed the Capital Financing Requirement (CFR).

	31 March 2025 Projected (30th Jun 2024)	31 March 2025 Budget (As at TMSS)	31 March 2024 Actual (As at Outturn)
CFR General Fund	£348.10m	£399.76m	£313.16m
CFR HRA	£149.33m	£149.33m	£147.34m
PFI	£43.29m	£43.21m	£41.74m
Total CFR	£540.72m	£592.30m	£502.24m

Table 5 Capital Financing Requirement as at 30th June 2024

37. The borrowing strategy takes into account the borrowing requirement, the current economic and market environments and is also influenced by the interest rate forecasts.
38. During the first quarter of 2024/25, the Council has maintained its under-borrowed position. This meant that the capital borrowing need, (the Capital Financing Requirement), has not been fully funded with loan debt, and cash supporting the Council's reserves, balances and cash flow has continued to be used as an interim measure to fund the capital programme. The under-borrowed position can be seen on the Councils Liability Benchmark graph as shown by the gap between the loans outstanding and CFR.
39. While this strategy is still prudent in 2024/25 as long-term borrowing rates have remained elevated across the curve, where debt is required to finance the capital programme the Treasury team will look at temporary and short-

term borrowing options if internal borrowing cannot be maintained. Where there are opportunities to draw down long term debt at more favourable rates, through either PWLB or market borrowing, these will be considered in order to try to minimise the longer-term impact of debt costs.

40. In the first quarter of 2024/25 the Council has taken new debt to replace used cash balances. Short term debt was taken from the PWLB which will require refinancing in early 2025/26 (see Table 7). This has increased the Council's refinancing interest rate risk as a greater proportion of its overall debt will mature in late 2024/25 and early 2025/26 but this is still within the approved maturity limits set as part of Prudential Indicator 8. The decision to take short term debt from PWLB was felt prudent in the current climate as forecasts for longer term borrowing rates show a decrease in the second half of 2024/25. If this occurs, then borrowing rates should be cheaper when refinancing this short-term debt.

Borrowing Portfolio

41. The Councils long-term borrowing started the year at a level of £325.05m. The current borrowing portfolio position as at 30th June 2024 is £335.05m.

Institution Type	30 th June 2024			31 st March 2024		
	No. of Loans	Principal	Average Rate	No. of Loans	Principal	Average Rate
<u>Public Works Loan Board</u> PWLB – Money borrowed from the Debt Management Office (HM Treasury)	60	£327.70m	3.44%	59	£317.70m	3.38%
<u>Market Loans</u> LOBO Loans – Lender Option Borrower Option	1	£5.00m	3.88%	1	£5.00m	3.88%
<u>West Yorkshire Combined Authority</u> WYCA – Zero interest loans the purpose of which are to help to fund York Central infrastructure projects.	4	£2.35m	0.00%	4	£2.35m	0.00%

Total Borrowing (GF & HRA)	65	£335.05m	3.43%	64	£325.05m	3.37%
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Table 6 Current borrowing position at 30th June 2024

42. During the first quarter of 2024/25 financial year one new loan was taken totalling £10.00m. This is detailed in Table 7 below. This borrowing was anticipated because of continued capital expenditure, the increasing CFR requirement and the decrease in cash balances as a result of internal borrowing.

Lender	Issue Date	Repayment Date	Amount	Rate	Duration (years)
PWLB	30/04/2024	30/04/2025	£10.00m	5.39%	1.00
			£10.00m		

Table 7 New loans up to 30th June 2024

43. During the first quarter of 2024/25 financial year no existing loans have matured.

44. There are 9 scheduled repayments of long-term borrowing that will occur this financial year totalling £43.40m. These are detailed in Table 8 below.

Lender	Issue Date	Repayment Date	Amount	Rate	Duration (years)
PWLB	13/10/2009	13/10/2024	£3.00m	3.910%	15.00
PWLB	23/11/2000	05/11/2024	£1.00m	4.750%	23.95
PWLB	03/04/2001	05/11/2024	£1.00m	4.750%	23.59
PWLB	29/01/2024	29/01/2025	£10.00m	5.350%	1.00
PWLB	28/02/2024	28/02/2025	£10.00m	5.460%	1.00
PWLB	27/03/2024	27/03/2025	£5.20m	5.390%	1.00
PWLB	27/03/2024	27/03/2025	£4.80m	4.990%	1.00
PWLB	28/03/2012	31/03/2025	£4.00m	2.870%	13.01
PWLB	28/03/2012	31/03/2025	£4.40m	2.870%	13.01
			£43.40m		

Table 8 Maturing loans in 2024/25

45. No loan rescheduling was done during the first quarter of the 2024/25 financial year.

46. The Councils £335.05m of fixed interest rate debt, is split between £149.26m for HRA (£119.65m self-financing debt) and £185.79m for General Fund as shown in Figure 3.

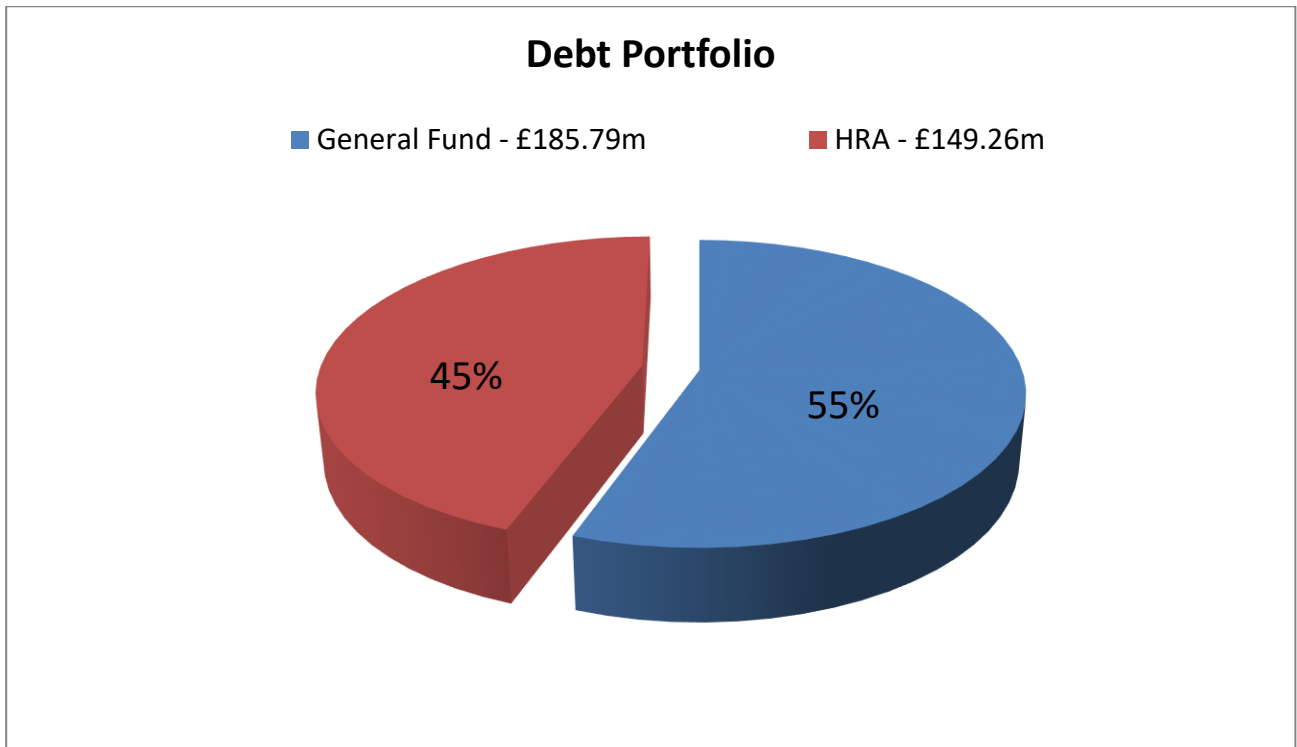


Figure 3 General Fund and HRA debt at 30th June 2024

47. Figure 4 illustrates the 2024/25 maturity profile of the Council's debt portfolio at 30th June 2024. The maturity profile, aside from a total of £40,000,000.00 PWLB debt taken all with 1 year maturities taken in 2023/24 and the first quarter of 2024/25, shows that there is no large concentration of loan maturity in any one year, thereby spreading the interest rate risk dependency.

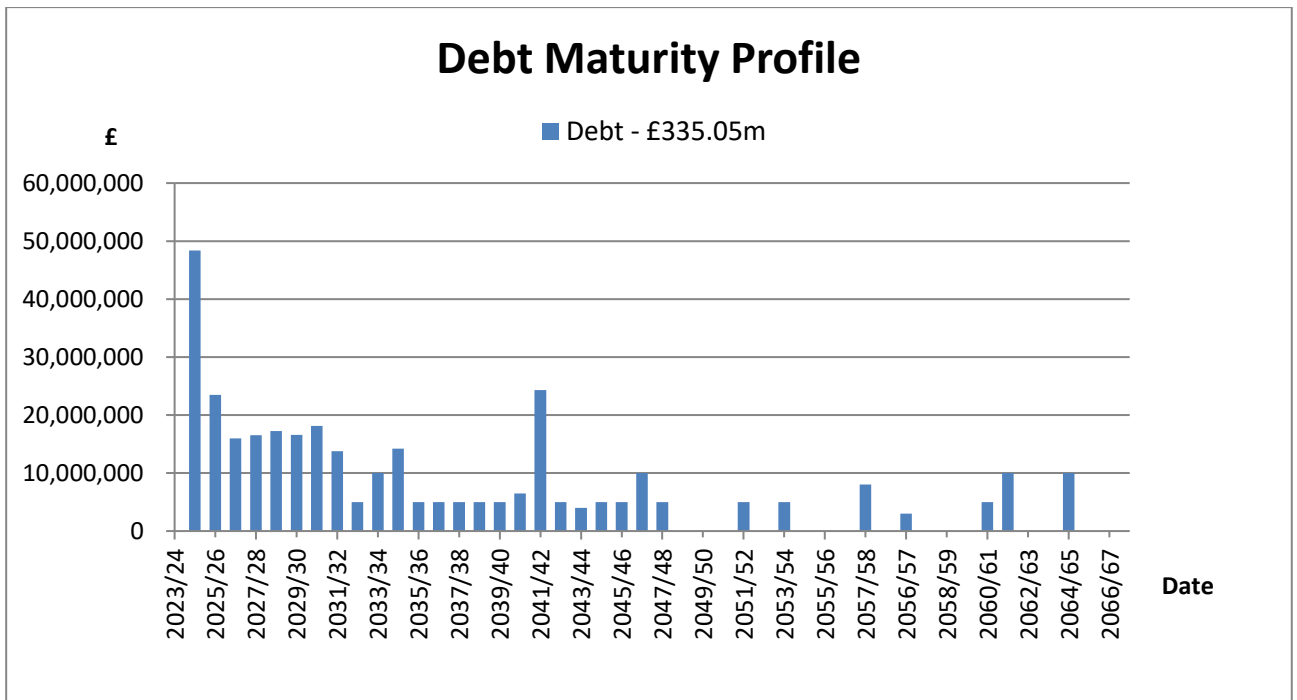


Figure 4 – Debt Maturity Profile at 30th June 2024

48. The timing of when that debt is drawn down depends 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.

49. Table 9 shows PWLB Certainty borrowing rates available for selected loan durations between 1st April 2024 and 30th June 2024 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	5.61%	5.14%	5.18%	5.61%	5.40%
Low	5.27%	4.70%	4.80%	5.28%	5.06%
Average	5.43%	4.92%	4.98%	5.42%	5.20%

Table 9 – PWLB Borrowing Rates 1st April 2024 to 30th June 2024

Compliance with Treasury policy Prudential Indicators

50. The Prudential Indicators for 2024/25 included in the Treasury Management Strategy Statement (TMSS) are based on the requirements of the Council’s capital programme and approved at Budget Council on 22nd February 2024 and can be viewed here <https://democracy.york.gov.uk/ieListDocuments.aspx?CId=733&MId=13934&Ver=4>.
51. 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 Group.
52. It is a statutory duty for the Council to determine and keep under review the “Affordable Borrowing Limits” included in the Prudential Indicators. During the first quarter of financial year 2024/25 the Council has operated within the treasury limits and Prudential Indicators set out in the TMSS for 2024/25.
53. An update of the Prudential Indicators is shown in Annex A.

Consultation Analysis

54. 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

55. The Treasury Management quarterly report and Prudential Indicators details the treasury management portfolio at 30th June 2024 and is for the review of the Executive Member for Finance to show compliance with treasury policy and ensure the continued performance of the treasury management function.

Organisational Impact and Implications

56. 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 details of the Treasury Management quarterly report are contained in the body of the report.
- **Human Resources (HR)** - n/a
- **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** - n/a
- **Health and Wellbeing** - n/a
- **Environment and Climate action** - n/a
- **Affordability** - The financial implications of the Treasury Management Strategy are contained in the body of the report and set out in the Financial Strategy and Capital Strategy reports also on this agenda.
- **Equalities and Human Rights** - n/a

- **Data Protection and Privacy** - n/a
- **Communications** - n/a
- **Economy** - n/a.
- **Specialist Implications Officers** - n/a

Risks and Mitigations

57. 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 as set out as part within the Treasury Management Strategy Statement at the start of each financial year. As a result of this the Local Government Act 2003 (as amended), supporting regulations, the CIPFA Prudential Code and the CIPFA Treasury Management in the Public Services Code of Practice (the code) are all adhered to as required.

Wards Impacted

All

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Date:	06/08/24

Background papers

- Treasury Management Strategy Statement and Prudential Indicators for 2024/25 to 2028/29 and Annexes A, B, C and D to that report.
<https://democracy.york.gov.uk/ieListDocuments.aspx?CId=733&MId=13934&Ver=4>.

Annexes

- Annex A – Prudential Indicators 2024/25 Quarter 1 (30.06.24)

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