CITY OF YORK COUNCIL

Meeting:	Executive
Meeting date:	25 January 2024
Report of:	Debbie Mitchell Chief Finance Officer
Portfolio of:	Councillor Katie Lomas Executive Member for Finance, Performance, Major Projects, Human Rights, Equality & Inclusion

Decision Report: Treasury Management Monitor 3

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 three quarters of the 2023/24 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 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 activities undertaken so far, performance, and monitoring of the Prudential Indicators. It provides an update on activity for the period 1st April 2023 to 30th November

2023. Therefore 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. Members are asked to:
   - Note the Treasury Management activities up to the third quarter date ending 30th November 2023.
   - Note the Prudential Indicators set out at Annex A 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 policies set.

7. It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. During the first three quarters of the year to 30th November 2023, the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement for 2023/24.

8. There are no policy changes to the Treasury Management Strategy Statement 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 three quarters of the 2023/24 financial year;
   - A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
   - An update to the prudential indicators (set out at Annex A);
   - 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.

Economic Update

10. The first half of 2023/24 saw:
    - Interest rates rise by a further 100bps, taking Bank Rate from 4.25% to 5.25%.
    - Short, medium and long-dated gilts remain elevated as inflation continually surprised to the upside.
    - CPI inflation falling from 8.7% in April to 6.7% in August, its lowest rate since February 2022, but still the highest in the G7.
    - Core CPI inflation declining to 6.1% in September from 7.1% in April and May, a then 31 years high.
    - A cooling in labour market conditions, but no evidence yet that it has led to an easing in wage growth.

11. In its latest monetary policy meeting on 14th December 2023, the Bank of England left interest rates unchanged at 5.25% for the third meeting in a row. The vote to keep rates on hold was a split vote, 6 - 3 (no change – raise 0.25) indicating some members of the MPC are still concerned about the stickiness of inflation. It is expected that the MPC will keep interest rates at the probable peak of 5.25% until the second half of 2024 and there is likely to be a growing drag from higher interest rates over the next six months meaning there could be a mild recession in the economy.

12. The Bank of England has maintained the hawkish guidance that rates will stay "sufficiently restrictive for sufficiently long" to indicate to markets rates may stay higher for a more prolonged period, rather than a peak in rate being followed by rate cuts, showing it is serious in ensuring inflation is brought under control. The sentiment gives the Bank of England the flexibility to respond to new developments, as for example, a rebound in services inflation, another surge in wage growth and/or a further increase in oil prices could conceivably lead to a further raising of rates in the future.

Interest Rate Forecast

13. Table 1 is Link Groups Interest Rate forecast for both the bank base rate and long-term Public Works Loans Board (PWLB) Certainty borrowing rates:

	Bank rate %	**PWLB borrowing rates % (including certainty rate adjustment)**			
		5 year	**10 year**	**25 year**	**50 year**
Dec 2023	5.25	5.00	5.10	5.50	5.30
Mar 2024	5.25	4.90	5.00	5.30	5.10

Jun 2024	5.25	4.80	4.80	5.10	4.90
Sep 2024	5.00	4.70	4.70	4.90	4.70
Dec 2024	4.50	4.40	4.40	4.70	4.50
Mar 2025	4.00	4.20	4.20	4.50	4.30
Jun 2025	3.50	4.00	4.00	4.30	4.10
Sep 2025	3.25	3.80	3.80	4.20	4.00
Dec 2025	3.00	3.70	3.70	4.10	3.90
Mar 2026	3.00	3.60	3.70	4.10	3.90
Jun 2026	3.00	3.50	3.60	40	3.80
Sep 2026	3.00	3.50	3.60	40	3.80
Dec 2026	3.00	3.50	3.50	40	3.80

Table 1: Link Asset Services Interest Rate Forecast 7th November 2023

14. Link expect the MPC will keep Bank Rate at 5.25% for the first half of 2024 to combat on-going inflationary and wage pressures. Link do not think that the MPC will increase Bank Rate above 5.25%, but it is possible. The overall longer-run trend is for gilt yields and PWLB rates to fall back over the timeline of our forecasts, as inflation starts to fall.

Annual Investment Strategy Update

15. 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.

16. 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)

17. 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.

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

Investment Portfolio

19. Investment returns have improved in the first 9 months of 2023/24 compared to those seen in 2022/23. This is due to increases in the Bank of England Base Rate (BBR) reflected in market rates. The last BBR increase came on 3rd August 2023 and the last 3 meetings held rates at 5.25%. Market expectation is that the BBR will not rise further but stay at this level until the second half of 2024. If this is the case investment returns may have reached their peak.

20. 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.

21. The average level of cash balances available for investment purposes in the first 8 months of 2023/24 was £29.325m (£57.858m for the same 8-month period in 2022/23).

22. 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 and during the first 9 months of 2023/24 all cash has been kept in more liquid short-term investments which has meant investments returns are not as high as market averages.

23. The level of average cash balances has decreased compared to a year ago 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 level of average balance available for investment has decreased during the first 9 months due to the continuing policy of avoiding new borrowing by running down spare cash balances to fund the capital programme.

24. The policy of using cash to delay long-term borrowing has served well over the last few years and is being kept under review into the last quarter of 2023/24 as cash balances for investment are projected to fall more sharply due to the timing of receipts and payments increasing the Councils underlying borrowing need. The Council is currently maintaining an under-borrowed position in relation to the Capital Financing Requirement.

25. Investment return (calculated as the amount of interest earned on invested cash for the period) during the first eight months of 2023/24 is shown in table 2:

	2022/23 (full year)	2023/24 (to 30th Nov 23)
Average CYC Rate of Return	2.02%	4.79%
Benchmarks		
Average Overnight SONIA	2.24%	4.85%
Average 7 day Backward Looking SONIA	2.23%	4.83%

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

26. The average rate of return achieved for invested cash to date in 2023/24 has been steadily increasing compared to the average seen in 2022/23, due to the Bank of England raising the base to 5.25%. 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 to. 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.

27. Opportunities for longer term investments at higher yields are now 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.

28. 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 2023/24. 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.

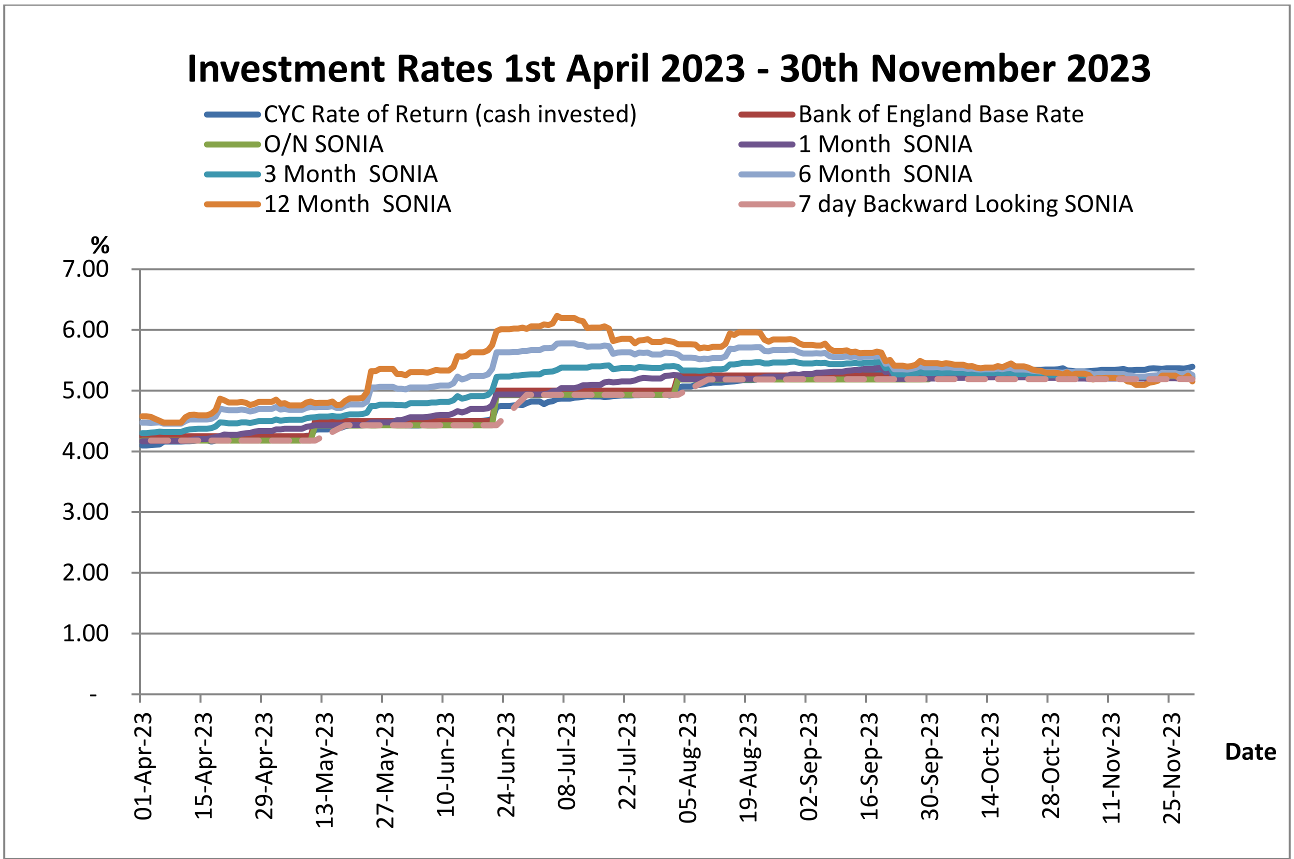

Figure 1 CYC Investments vs Bank of England base rate and SONIA up to 30th November 2023

29. Table 3 shows the current fixed term investments at 30th November 2023.

Institution Type	Principal 30/11/23	Average Principal	Average Rate
Fixed Term Deposits	£0.00m	£0.00m	0.00%
Call / Notice	£0.00m	£0.00m	0.00%
Money Market Funds	£0.75m	£28.91m	4.81%
Cash in bank	£0.26m	£0.41m	0.00%
Total Investments	£1.01m	£29.33m	4.79%

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

30. 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 AAAm credit rating and the cash bank account is AA-.

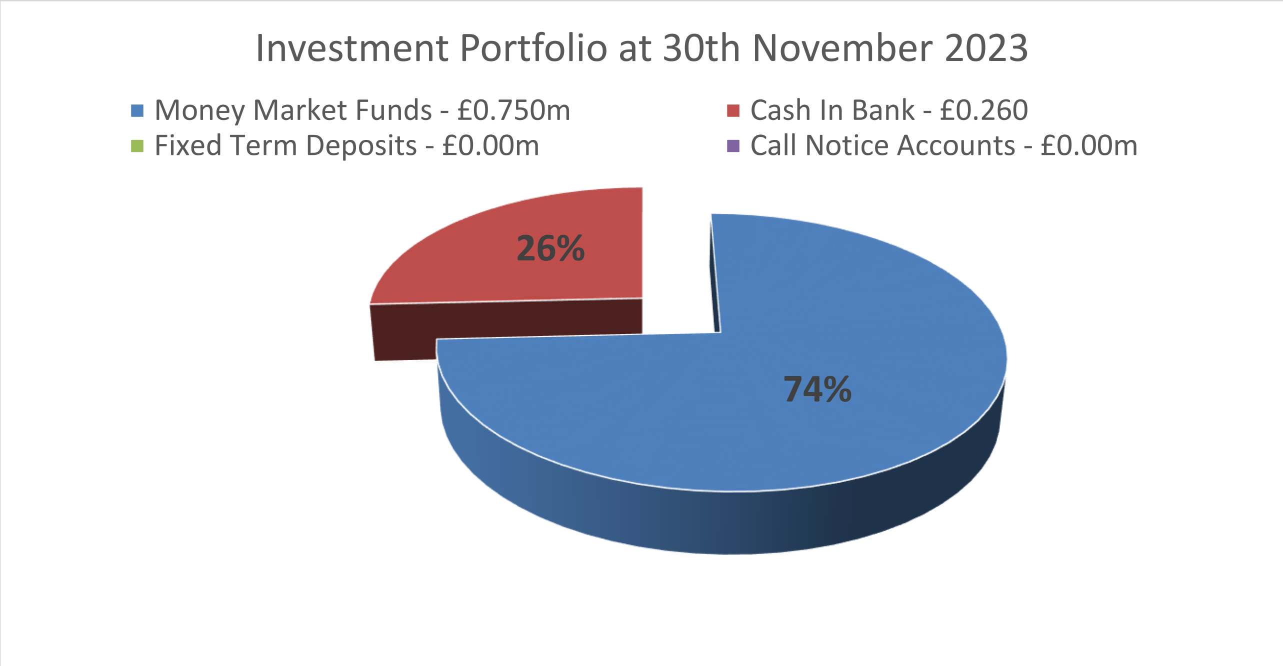

Figure 2 Investment Portfolio by type at 30th November 2023

Borrowing Strategy Update

31. 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.

32. 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.

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. 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.

35. 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

36. The Councils long-term borrowing started the year at a level of £297.265m. No new loans have been taken during the first eight months of the year. The current borrowing portfolio position as at 30th November 2023 is £297.265m.

Institution Type	Principal	Average Rate
Public Works Loan Board PWLB (58) – Money borrowed from the Debt Management Office (HM Treasury)	£289.9m	3.17%
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)	**£297.3m**	**3.16%**

Table 4 Current position at 30th November 2023

37. There are 5 scheduled repayments of long-term borrowing that will occur this financial year totalling £6.2m. These are detailed in the table below.

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

38. The Councils £297.265m of fixed interest rate debt, is split between £146.359m for HRA (£121.550m self-financing debt) and £150.906m for General Fund.

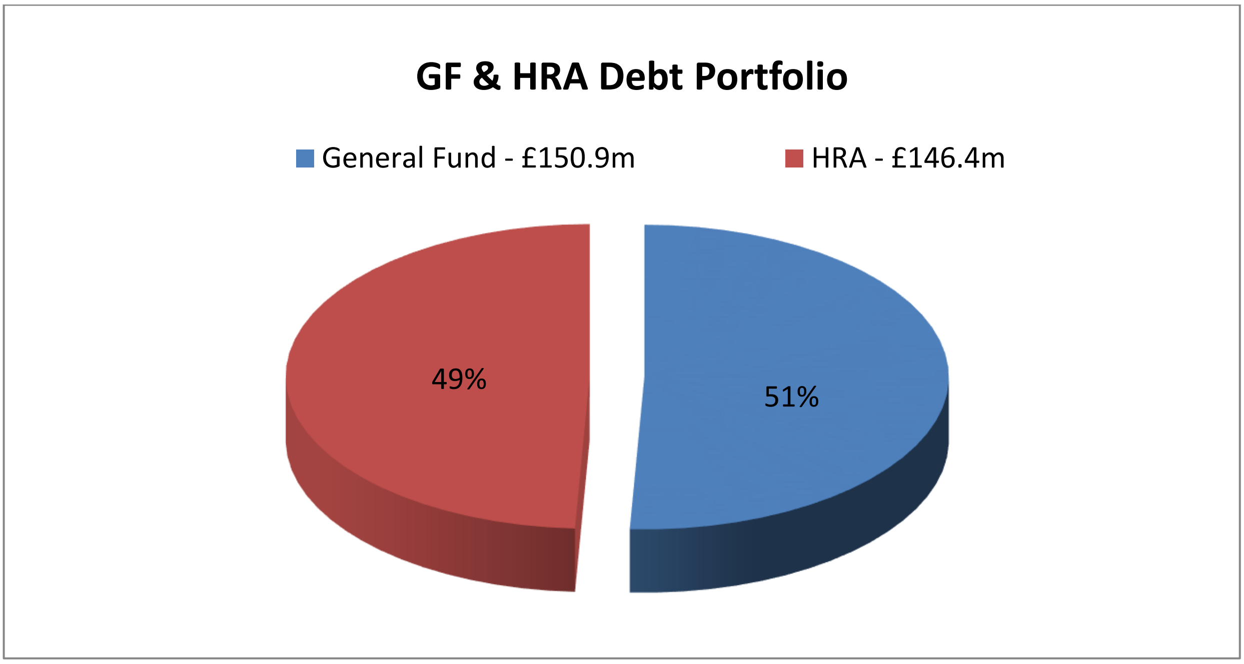

Figure 3 General Fund and HRA debt at 30th November 2023

39. Figure 4 illustrates the 2023/24 maturity profile of the Council's debt portfolio at 1st December 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.

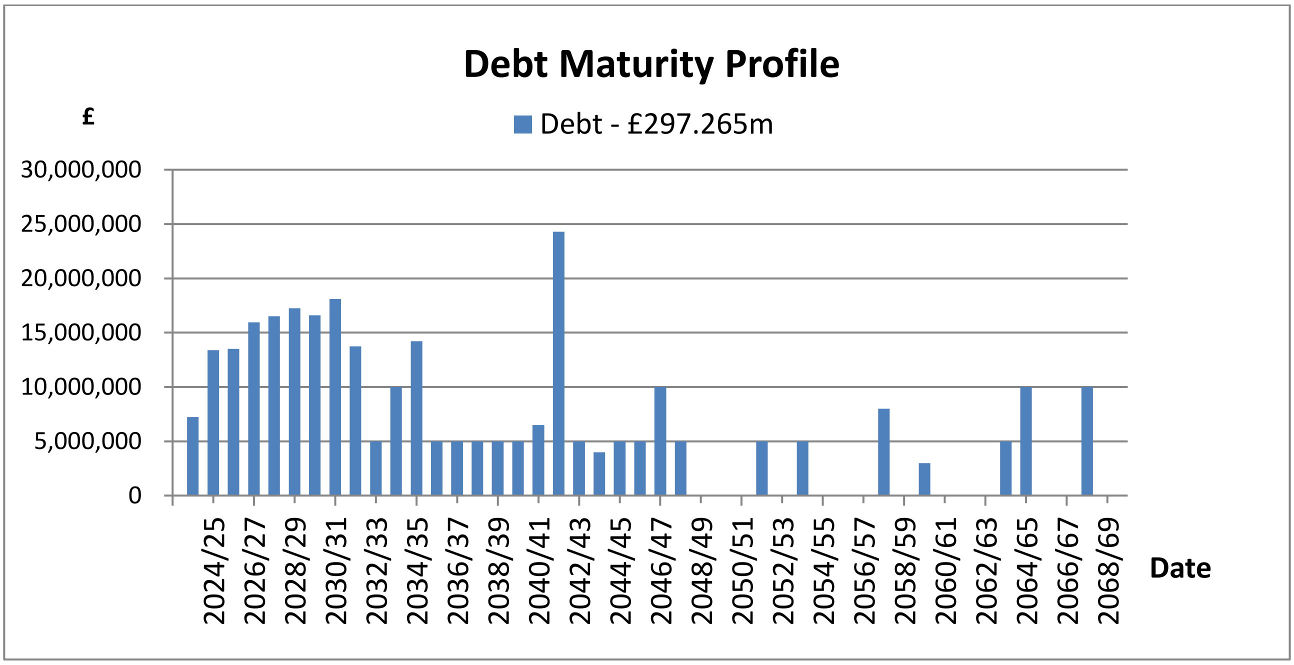

Figure 3 – Debt Maturity Profile at 30th November 2023

40. 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.

41. Table 6 shows PWLB Certainty borrowing rates available for selected loan durations between 1st April 2023 and 30th November 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	6.36%	5.93%	5.53%	5.96%	5.74%
Low	4.65%	4.14%	4.20%	4.58%	4.27%
Average	5.62%	5.15%	5.06%	5.33%	5.10%

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

Compliance with Treasury policy Prudential Indicators

42. 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.

43. 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.

44. 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 financial year 2023/24 to date the Council has operated within the treasury limits and Prudential Indicators set out.

45. An update of the Prudential Indicators is shown in Annex A.

Consultation Analysis

46. 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

47. The Treasury quarterly report shows the 3rd quarter position of the treasury management portfolio at 31st December 2023 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

48. 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)** - 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** - n/a
- **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

49. 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

Contact details

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Background papers

- Treasury Management Strategy Statement and Prudential Indicators for 2023/24 to 2027/28 and Annexes A, B, C and D to that report. https://democracy.york.gov.uk/ieIssueDetails.aspx?IId=68802&PlanId=0&Opt=3

Annexes

- Annex A – Prudential Indicators 2023/24 Mon 3 (15.12.23)

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