Annex 1

CITY OF YORK COUNCIL

Meeting:	Executive
Meeting date:	18/07/2024
Report of:	Debbie Mitchell Director of Finance
Portfolio of:	Councillors Lomas and Baxter (job-share), Executive Members for Finance, Performance, Major Projects, Human Rights, Equality and Inclusion

Decision Report: Treasury Management annual report and review of Prudential Indicators for 2023/24

Subject of Report

1. The purpose of this report is to provide an update on treasury management activity and position for the 2023/24 financial year which includes the prudential indicators 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 annual report detailing the activities undertaken and performance in the financial year 2023/24, highlighting compliance with the Council's policies previously approved by members, and the monitoring of the Prudential Indicators. The Council is required through legislation to have this report and Prudential Indicators approved by members; 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. Executive is asked to note:
   - The 2023/24 performance of treasury management activity.
   - The Prudential Indicators outlined in 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 with policies set.

7. It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. During the 2023/24 financial year, 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 2023/24 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 annual 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 2023/24 financial year.
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy.
- A review of the treasury position as at 31st March 2024.
- A review of the Council’s investment portfolio.
- A review of the Council’s borrowing strategy.
- An update to the prudential indicators (set out at Annex A).
- A review of compliance with the Treasury and Prudential Limits.

Economic Update

10. Financial year 2023/24 saw:
    - Interest rates rise by a 100bps, taking Bank Rate from 4.25% to 5.25%.
    - Short, medium and long-dated gilts have remained elevated as inflation remained high in the first half of the year before starting to decrease in the second half of the year at a slower pace than expected.
    - CPI inflation fell from 8.7% in April to 3.2% in March.
    - Core inflation stood at 4.2% in March, compared to 7.1% at the start of the financial year.
    - A shallow recession in the second half of the year.

11. In its latest monetary policy meeting on 21st March 2024, the Bank of England left interest rates unchanged at 5.25% for the fifth meeting in a row and retained its hawkish guidance. The Bank of England has maintained the hawkish guidance that rates will stay “sufficiently restrictive for sufficiently long” to tackle the key indicators of inflation persistence which remain elevated.

Interest Rate Forecast

12. 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. 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 (gilt yields plus 80 bps):

	Bank rate %	PWLB borrowing rates % (including certainty rate adjustment)			
		5 year	10 year	25 year	50 year
Mar 2024	5.25	4.50	4.70	5.20	5.00
Jun 2024	5.25	4.40	4.50	5.10	4.90
Sep 2024	4.75	4.30	4.40	4.90	4.70
Dec 2024	4.25	4.20	4.30	4.80	4.60
Mar 2025	3.75	4.10	4.20	4.60	4.40

Jun 2025	3.25	4.00	4.10	4.40	4.20
Sep 2025	3.00	3.80	4.00	4.30	4.10
Dec 2025	3.00	3.70	3.90	4.20	4.00
Mar 2026	3.00	3.60	3.80	4.20	4.00
Jun 2026	3.00	3.60	3.70	4.10	3.90
Sep 2026	3.00	3.50	3.70	4.10	3.90
Dec 2026	3.00	3.50	3.70	4.10	3.90
Mar 2027	3.00	3.50	3.70	4.10	3.90

Table 1 – Link's interest rate forecast as at 25th March 2024

13. Market expectations are currently that Bank Rate has reached its peak at 5.25% and the Bank of England Monetary Policy Committee (MPC) have held rates at 5.25% at the last five meetings (21st September 2023, 2nd November 2023, 14th December 2023, 1st February 2024 and 21st March 2024). Inflation had fallen in the second half of 2023/24 and it is forecast to fall further during 2024. Markets views are that Bank Rate will start to decrease from 5.25% in the second half of 2024 which in turn will mean a falling back of Gilt yields and PWLB rates. Link's view on the overall longer-run trend is for gilt yields and PWLB rates to fall back over the timeline of the forecasts in Table 1 as inflation continues to fall through 2024.

Treasury Management Strategy Statement 2023/24

14. 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.

15. 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)

16. 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.

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

Overall treasury position at 31st March 2024

18. Table 2 shows the Councils net treasury debt and investment position for financial year end 2023/24 compared to 2022/23:

	Principal	Average Rate	Principal	Average Rate
	31/03/2024	**31/03/2024**	**31/03/2023**	**31/03/2023**
External Debt				
General Fund Borrowing	£175.79m	3.42%	£154.91m	3.17%
Housing Revenue Account (HRA) Borrowing	£149.26m	3.31%	£146.35m	3.20%
Total Borrowing	£325.05m	3.37%	£301.26m	3.18%
Other Long-term Liabilities inc. PFI	£41.74m		£42.81m	
Total External Debt	£366.79m		£344.07m	
Investments				
Investment balance	£5.04m	4.86%	£10.81m	2.02%
Net Treasury Position				
Debt less Investments	£361.75m		£333.26m	

Table 2 summary of year end treasury position as at 31st March 2024

Investment outturn for 2023/24

19. The Council's investment policy is governed by DLUHC guidance, which has been implemented in the annual investment strategy approved by the Council on 23rd February 2023. This policy sets out the approach for choosing investment counterparties and is 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 issues when placing investments after the core investment priorities of security, liquidity and yield have been assessed and this will be done through the use of the FTSE4Good index or any suitable alternative responsible investment index or information to be decided by the s151 officer. The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

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 which is due to the timing 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. Cash balances are therefore only available on a temporary basis depending on cash flow movement.

21. The Council maintained an average investment balance of £23.238m in 2023/24 compared to £52.422m in 2022/23. The surplus funds earned an average rate of return of 4.86% in 2023/24 compared to 2.02% in 2022/23. During 2023/24 all cash has been kept in liquid investments which has meant investments returns are not as high as market averages.

22. 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 2023/24 due to the continuing policy of avoiding new borrowing by running down spare cash balances to fund the capital programme.

23. The policy of using cash to delay long-term borrowing has served well over the last few years and is being kept under review for 2024/25 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.

24. Investment returns have improved in the financial year 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 5 meetings since to 21st March 2024 have 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 are likely to have reached their peak.

25. Investment return (calculated as the amount of interest earned on invested cash for the period) during 2023/24 is shown in table 3:

	2023/24 (full year)	**2022/23 (full year)**
Average CYC Rate of Return	4.86%	2.02%
Benchmarks		
Average Overnight SONIA	4.96%	2.24%
Average 7 day Backward Looking SONIA	4.95%	2.23%

Table 3: CYCs investment rate of return performance vs. SONIA benchmark

26. 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. The comparators given are based on overnight and 7 day benchmarks.

27. The average rate of return achieved for invested cash in 2023/24 has been steadily increasing compared to the average seen in 2022/23, due to the Bank of England raising and holding the base rate at 5.25%. The Council has been keeping cash in highly liquid Money Market Funds which provide instant access to cash. 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.

28. Opportunities for longer term investments at higher yields are available, 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.

29. 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.

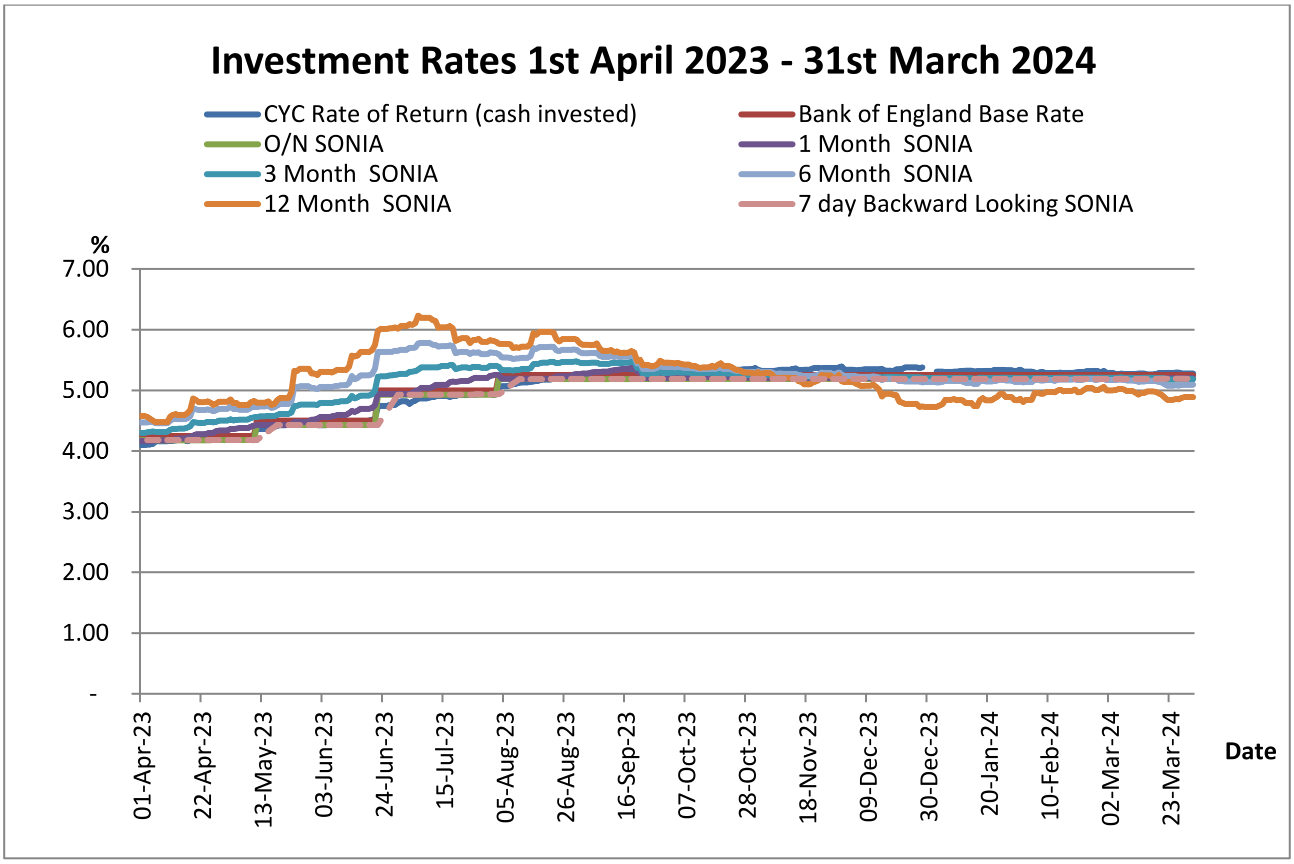

Figure 1 CYC Investments vs Bank of England base rate and SONIA up to 31st March 2024

30. Table 4 shows the current fixed term investments at 31st March 2024.

Institution Type	Principal 31/03/24	Average Principal	Average Rate
Fixed Term Deposits	£0.00m	£0.00m	0.00%
Call / Notice	£0.00m	£0.00m	0.00%
Money Market Funds	£4.60m	£22.87m	5.02%
Cash in bank	£0.44m	£0.37m	0.00%
Total Investments	£5.04m	£23.34m	4.86%

Table 4: Investment Portfolio by type at 31st March 2024

31. 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-.

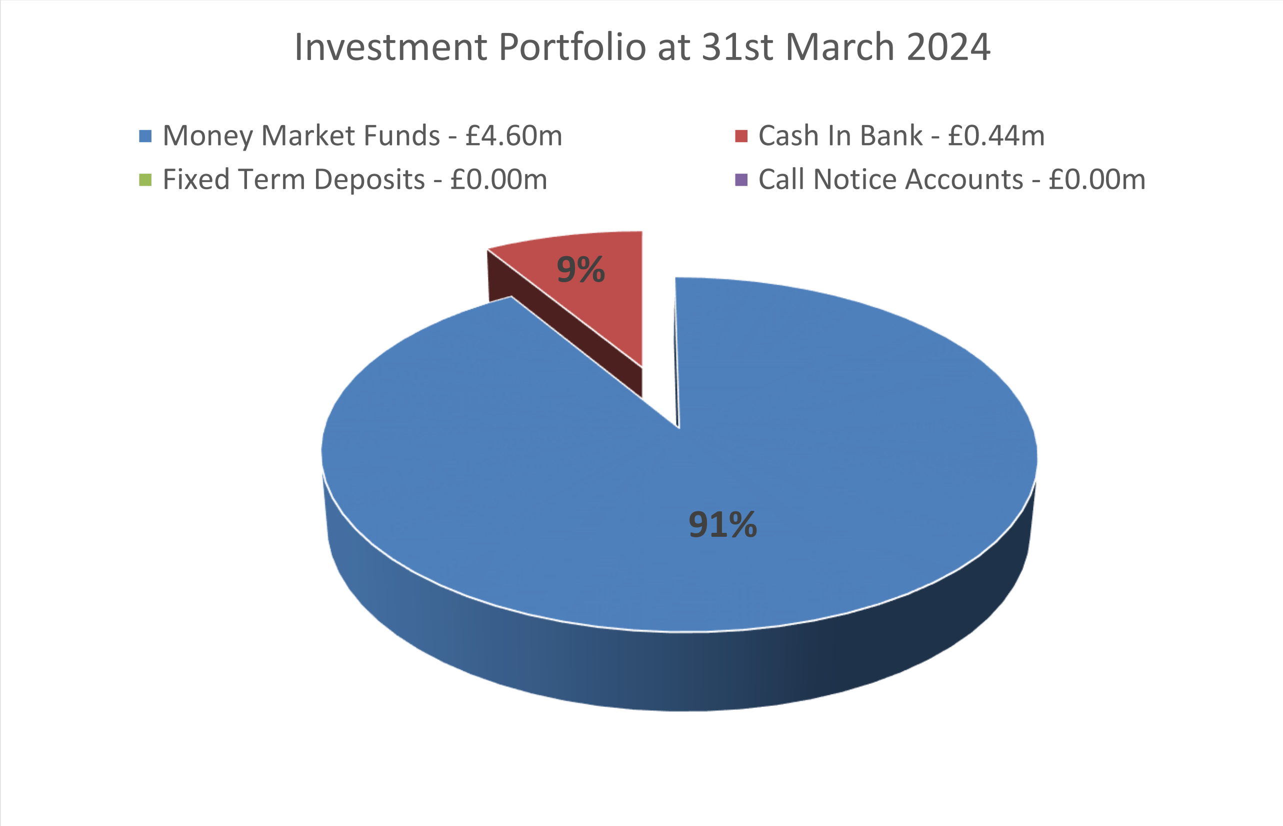

Figure 2 Investment Portfolio by type at 31st March 2024

Borrowing requirement and debt at 31st March 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. 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.

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

	31 March 2024 Actual	31 March 2024 Budget	31 March 2023 Actual
CFR General Fund	£313.96m	£392.83m	£292.76m
CFR HRA	£147.34m	£146.36m	£146.36m
PFI	£41.74m	£41.74m	£42.81m
Total CFR	£503.04m	£580.93m	£481.93m

Table 5 Capital Financing Requirement as at 31st March 2024

35. 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.

36. 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.

37. The borrowing strategy takes into account the borrowing requirement, the current economic and market environments and is also influenced by the interest rate forecast.

38. During 2023/24, the Council maintained an under-borrowed position. This meant that the capital borrowing need, (the Capital Financing Requirement), was not fully funded with loan debt, as cash supporting the Council's reserves, balances and cash flow was used as an interim measure. This position can be seen on the Councils Liability Benchmark graph as shown by the gap between the loans outstanding and CFR. This strategy was still prudent in 2023/24 as long-term borrowing rates have remained elevated across the curve.

39. 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 and also look out for, and at, opportunities to draw down long term debt at more favourable rates should the opportunities arise through either PWLB or market borrowing in order to try to minimise the longer-term impact of debt costs.

40. As cash balances decreased it was not possible to delay borrowing in the last quarter of 2023/24. Short term debt was taken from the PWLB which will require refinancing towards the end of 2024/25 (see Table 7). This has increased the Council's refinancing interest rate risk as a greater proportion of its overall debt will mature in 2024/25 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 they are predicted to decrease in the second half of 2024/25. If this occurs, then borrowing rates should be cheaper when refinancing this short-term debt.

Borrowing outturn for 2023/24

41. The Councils long-term borrowing started the year at a level of £301.265m. The current borrowing portfolio position as at 31st March 2024 is £325.050m.

	31st March 2024			31st March 2023		
Institution Type	**No. of Loans**	**Principal**	**Average Rate**	**No. of Loans**	**Principal**	**Average Rate**
Public Works Loan Board PWLB – Money borrowed from the Debt Management Office (HM Treasury)	59	£317.70m	3.38%	60	£293.91m	3.20%
Market Loans LOBO Loans – Lender Option Borrower Option	1	£5.00m	3.88%	1	£5.00m	3.88%
West Yorkshire Combined Authority 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)	**64**	**£325.05m**	**3.37%**	**65**	**£301.26**	**3.18%**

Table 6 Current borrowing position at 31st March 2024

42. During 2023/24 four new loans were taken totalling £30,000,000. These are detailed in the Table 7 below. This borrowing was anticipated and is as a result of the progress made in delivering the capital programme. The associated revenue implications were included in the annual budget setting process. The borrowing drawn down has been less than anticipated during 2023/24 due to the reappraisal of the capital programme and actual expenditure being less than forecast. Less expenditure has meant some of the capital programme has continued to be funded by internal borrowing while borrowing rates remain elevated, although this internal borrowing will need to be externalised in the near future.

Lender	Issue Date	Repayment Date	Amount	Rate	Duration (years)
PWLB	29/01/2024	29/01/2025	£10,000,000.00	5.35%	1.00
PWLB	28/02/2024	28/02/2025	£10,000,000.00	5.46%	1.00
PWLB	27/03/2024	27/03/2025	£5,200,000.00	5.39%	1.00
PWLB	27/03/2024	27/03/2025	£4,800,000.00	4.99%	1.00
			£30,000,000.00		

Table 7 New loans in 2023/24

43. During financial year 2023/24 the following existing loans matured. The total of maturing loans was £6.2m. These are detailed in the Table 8 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 8 Matured loans in 2023/24

44. No loan rescheduling was done during the financial year 2023/24.

45. The Councils £297.265m of fixed interest rate debt, is split between £149.259m for HRA (£121.550m self-financing debt) and £175.791m for General Fund as shown in Figure 3.

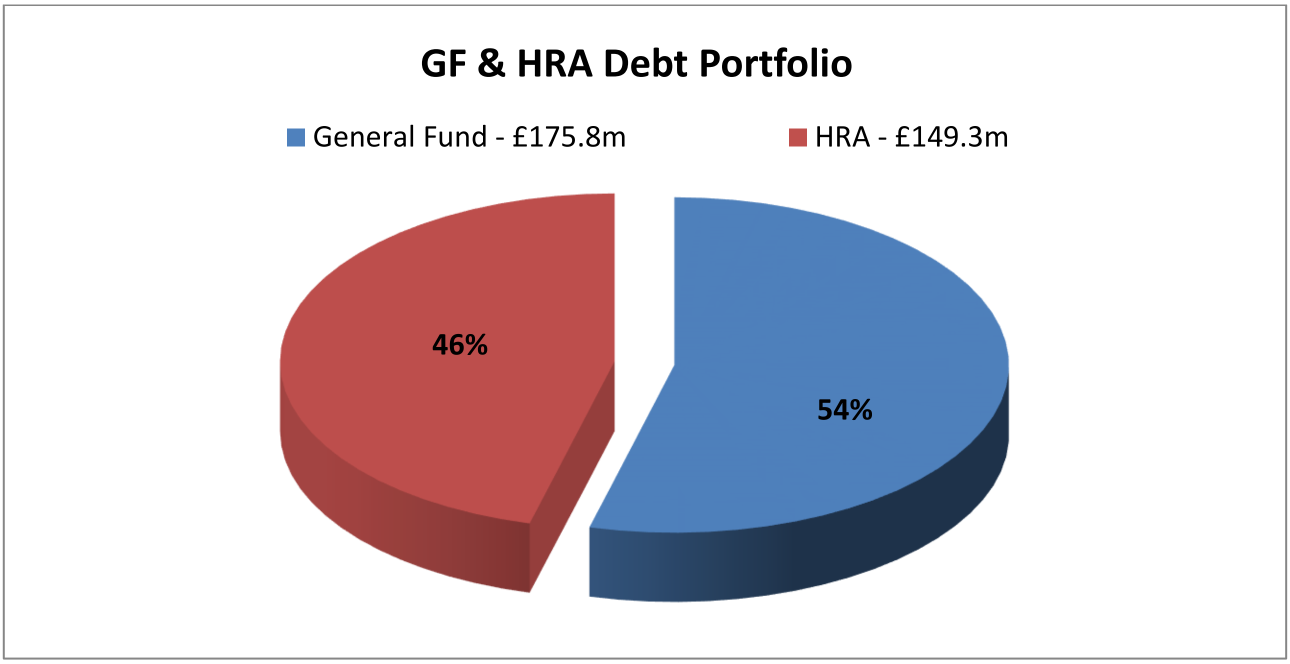

Figure 3 General Fund and HRA debt at 31st March 2024

46. Figure 4 illustrates the 2023/24 maturity profile of the Council's debt portfolio at 31st March 2024. The maturity profile, aside from the short-term debt taken in 2023/24 (for the reasons as stated in paragraph 42 that will mature in 2024/25 with details shown in Table 7), shows that there is no large concentration of loan maturity in any one year, thereby spreading the interest rate risk dependency.

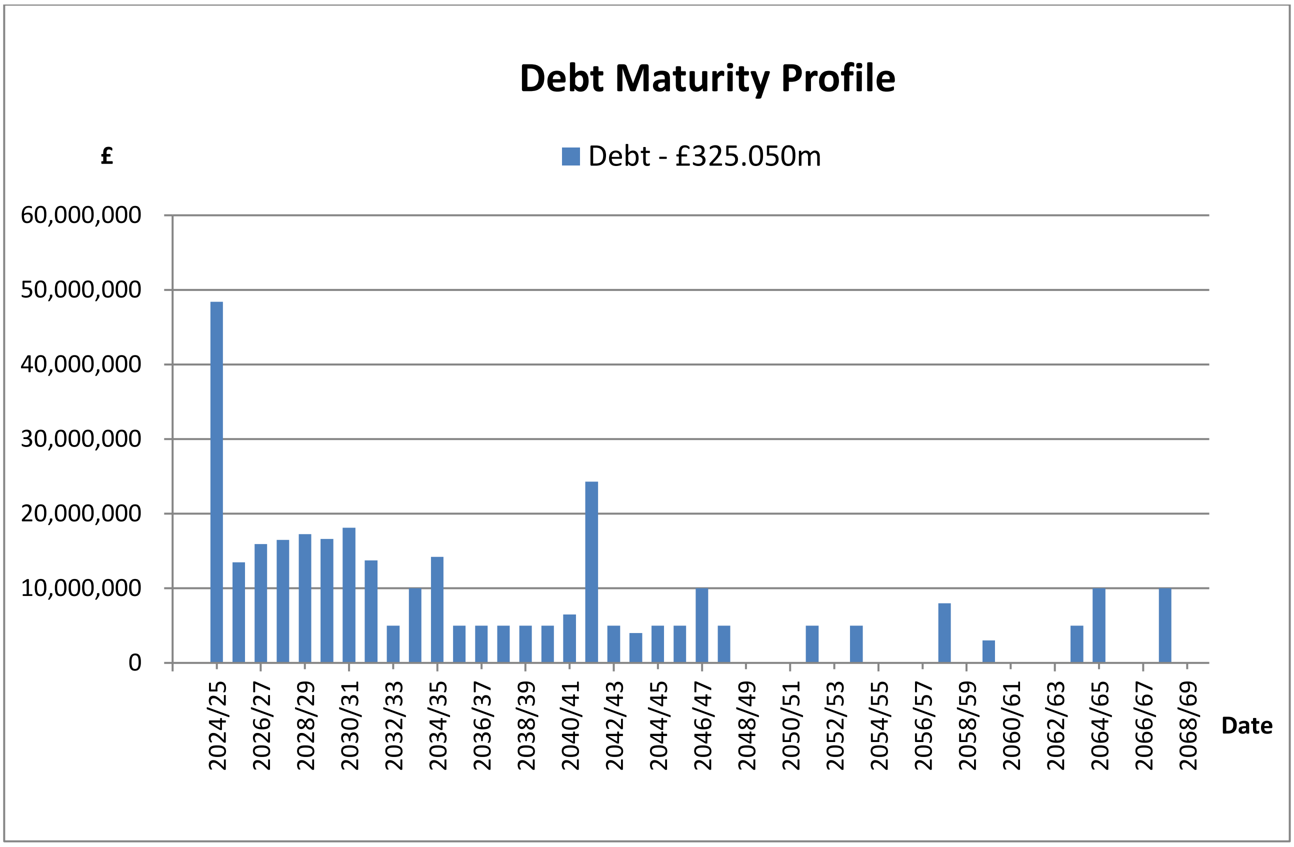

Figure 4 – Debt Maturity Profile at 31st March 2024

47. 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.

48. Table 9 shows PWLB Certainty borrowing rates available for selected loan durations between 1st April 2023 and 31st March 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	6.36%	5.93%	5.53%	5.96%	5.74%
Low	4.65%	4.13%	4.20%	4.58%	4.27%
Average	5.54%	4.99%	4.96%	5.33%	5.08%

Table 9 – PWLB Borrowing Rates 1st April 2023 to 31st March 2024

Compliance with Treasury policy Prudential Indicators

49. 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.

50. 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.

51. 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.

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

Consultation Analysis

53. 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

54. The Treasury Management annual report and Prudential Indicators details the treasury management portfolio at 31st March 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

55. 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 of the Treasury Management Strategy are in contained in the body of the report and set out in the Financial Strategy and Capital Strategy reports also on this agenda.

- ***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 in 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

56. 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:	

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 Outturn (31.03.24)

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