monmouthshire county council sir fynwy

REPORT

SUBJECT:	**TREASURY MANAGEMENT ACTIVITY UPDATE - QUARTER 1 2023/24**
MEETING:	**Governance & Audit Committee**
DATE:	**27th July 2023**
DIVISIONS/WARD AFFECTED:	**All**

1. PURPOSE:

1.1. During the first three months of 2023/24, the Council's treasury management activity was underpinned by the Chartered Institute of Public Finance and Accountancy's (CIPFA) Prudential Code for Capital Finance in Local Authorities (the Prudential Code) and complimented by the CIPFA guidance "Treasury Management in the Public Services" which sets out good practice in treasury management.

1.2. These place a requirement on local authorities to produce annually a Treasury Management Strategy Statement and Prudential Indicators on their likely financing and investment activity, and to ensure that the appropriate governance function that oversees the treasury management activities of the Authority is kept informed of activity quarterly.

1.3. This report represents the first update of treasury management activity during 2023/24 following the approval of the Treasury Strategy to Governance & Audit committee on the 9th of March 2023.

2. RECOMMENDATIONS:

2.1. That Governance & Audit committee review the treasury management activities and the performance achieved in the first quarter of 2023/24 as part of their delegated responsibility to provide scrutiny of treasury policy, strategy and activity on behalf of Council.

3. KEY ISSUES:

3.1. The Authority's treasury management strategy for 2023/24 was approved by Council on 9th March 2023. Over the first quarter of the year the Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Authority's treasury management strategy.

3.2. Treasury risk management at the Authority is conducted within the framework of the CIPFA Prudential code and Treasury Management in the Public Services which requires the Authority to approve a treasury management strategy before the start of each financial year and, as a minimum, a quarterly update report, and annual treasury outturn report.

3.3. This quarter one update report presents the following information:

- An update on the external market conditions impacting treasury activity during the first quarter;
- An update of the movement in treasury balances and forecast performance against budget;
- details of borrowing activity, investment activity and non-treasury investment matters;

- compliance with treasury limits and indicators for the quarter.

4. **External market conditions**

4.1. Economic background: From the start of the quarter until May it looked like peak global monetary policy rates were in sight as inflation continued to ease and central banks turned more dovish in tone. Only a few weeks later, stronger and more persistent inflation data, particularly in the UK, changed the picture.

4.2. The UK situation was not welcome news for the Bank of England. GDP growth was weak, confirmed at 0.1% in Q1, although more recent monthly GDP data has been somewhat better. The housing market has stalled, consumer demand is weak but seemingly recovering despite higher interest rates, and labour demand remained strong, with repercussions for wage growth which is accelerating.

4.3. April data showed the unemployment rate increased to 3.8% (3mth/year) while the employment rate rose to 76.0%. Pay growth was 6.5% for total pay (including bonuses) and 7.2% for regular pay, the largest growth rate of the latter outside of the Covid pandemic. Once adjusted for inflation, however, growth in total pay and regular pay remained negative.

4.4. Inflation fell from its peak of 11.1% reached in October 2022, but annual headline CPI in May 2023 was higher than the consensus forecast at 8.7% (8.4% expected), largely driven by services inflation, while the annual measure of underlying core inflation rose to 7.1% from 6.8%.

4.5. After a sharp rise in interest rate expectations, with clearly serious implications for mortgage markets due to higher inflation and wage data, the Bank of England's Monetary Policy Committee reaccelerated monetary policy tightening over the period with a 0.25% rise in May to a 0.5% rise in June, taking Bank Rate to 5.0%. At both meetings the vote was 7-2 in favour of increasing rates, with the two dissenters preferring to keep rates on hold.

4.6. Interest rate expectations priced in further hikes in policy rates. Arlingclose, the authority's treasury adviser, revised its forecast to forecast a further 0.5% of monetary tightening to take Bank Rate to 5.5%. The risks, however, are that rates could be higher; financial markets are forecasting policy interest rates above 6%.

4.7. With many mortgages at low fixed rates now systematically being re-set over the next 12-24 months at higher rates at the end of their fixed rate period, there has been a lagged effect of the feed through of monetary policy on households' disposable income. The economic slowdown is expected to develop over time and therefore, despite the GfK measure of consumer confidence rising to -24 in June, it is likely confidence will be negatively affected at some point. The manufacturing sector contracted during the quarter according to survey data, which will eventually feed into services, whose expansion is slowing.

4.8. Despite the US Federal Reserve increasing its key interest rate to 5.00-5.25% over the period, activity in the region continued to defy monetary tightening, particularly in labour markets which have so far appeared robust, supporting the Fed's assertations of two more rate hikes after it paused in June. Annual US inflation continued to ease, falling from 4.9% in April to 4.0% in May, the lowest level since March 2021. US GDP growth at 2% annualised in the first calendar quarter of 2023 was also significantly stronger than expected against the initial estimate of 1.3%.

4.9. In the euro zone, the picture was somewhat different. The European Central Bank maintained its hawkish tone and increased its key deposit, main refinancing, and marginal lending interest rates to 3.50%, 4.00% and 4.25% respectively. There were signs of weakening activity, particularly in Germany whose manufacturing sector has taken a hit from high energy prices and weaker global demand. However, inflation remained sticky, annual headline CPI fell to 5.5% in June while annual core inflation rose to 5.4% from 5.3%, which means the ECB is unlikely to stop monetary tightening.

4.10. **Financial markets:** Financial market sentiment and bond yields remained volatile, the latter continuing their general upward trend as uncertainty and concern over higher inflation and higher interest rates continued to dominate.

4.11. Gilt yields rose over the period. The 5-year UK benchmark gilt yield rose from 3.30% to 4.67%, the 10-year gilt yield from 3.43% to 4.39%, and the 20-year yield from 3.75% to 4.51%. The Sterling Overnight Rate (SONIA) averaged 4.37% over the quarter.

4.12. **Credit review:** Having completed a review of its credit advice on unsecured deposits at UK and non-UK banks following concerns of a wider financial crisis after the collapse of Silicon Valley Bank purchase of Credit Suisse by UBS, as well as other well-publicised banking sector issues, in March Arlingclose reduced the advised maximum duration limit for all banks on its recommended counterparty list to 35 days.

4.13. Over the period S&P upgraded NatWest Group and related entities to A+ (except NatWest Markets which was upgraded to A), revised the UK sovereign outlook to stable from negative, and upgraded both Barclays Bank PLC and Barclays Bank UK PLC to A+.

4.14. Fitch put the US sovereign rating on Rating Watch Negative following increased political partisanship which at the time was hindering the latest resolution to raise the debt ceiling. It also upgraded the outlook on United Overseas Bank to stable, the outlook on Clydesdale to positive, and the outlook on Bank of Montreal to stable.

4.15. Moody's withdrew Guildford BC's rating (who chose not to continue being rated) and affirmed the Aaa rating of the European Investment Bank.

4.16. Arlingclose continued to monitor and assess credit default swap levels for signs of ongoing credit stress but made no changes to the counterparty list or recommended durations over the quarter. Nevertheless, heightened market volatility is expected to remain a feature, at least in the near term and, as ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remains under constant review.

5. <u>Movement in Treasury balances during the quarter</u>

5.1. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while balance sheet resources are the underlying resources available for investment. The Authority pursued its strategy of keeping borrowing and investments below their underlying levels for the quarter, known as internal borrowing, in order to reduce risk and keep interest costs low. These factors are summarised in the table below.

Table 1: Balance Sheet Summary

	31.3.23 £m	Movement £m	30.6.23 £m	31.3.24 Forecast £m
General Fund CFR	193.3	6.5	199.8	223.2
Less: *Other debt liabilities	(2.4)	0.0	(2.4)	(2.4)
Borrowing CFR	**190.9**	**6.5**	**197.4**	**220.8**
Less: External borrowing	(198.7)	17.9	(180.8)	(204.2)
Net External borrowing	**(7.8)**	**24.3**	**16.6**	**16.6**
Less: Usable reserves	(39.8)	0.0	(39.8)	(30.3)

Less: Working capital	9.0	(10.8)	(1.8)	(1.3)
(Net Investments) at 31st March 2023	**(38.5)**	**13.5**	**(25.0)**	**(15.0)**

* finance leases, PFI liabilities and transferred debt that form part of the Authority's total debt

5.2. The Authority will look to maintain its strategy of internal borrowing as we move through the remainder of the financial year. If capital expenditure plans remain accurate, the Authority is likely to have a further borrowing requirement through to the end of the year of around £23.4m (£204.2m less £180.8m) in addition to the borrowing required to refinance maturing short-term loans. To that end, the Authority has already entered into forward starting loans of £25m as outlined in table 4 of this report.

5.3. The treasury management position at 30th June and the change over the quarter is shown in the table below.

Table 2: Borrowing and Investment Summary

	31.3.23 Balance £m	31.3.23 Rate %	Movement	30.6.23 Balance £m	30.6.23 Rate %
Long-term borrowing	133.0	3.2	(0.5)	132.5	3.24
Short-term borrowing	65.7	2.8	(17.4)	48.3	3.23
Total borrowing	**198.7**	**3.1**	**(17.9)**	**180.8**	**3.24**
Long-term investments	0.0	N/A	0.0	0.0	N/A
Short-term investments	(13.0)	2.1	10.0	(3.0)	4.37
Pooled Funds	(4.0)	4.5	0.0	(4.0)	5.46
Cash and cash equivalents	(21.5)	Included in ST above	3.5	(18.0)	Included in ST above
Total investments	**(38.5)**	**2.36**	**13.5**	**(25.0)**	**4.54**
Net Borrowing	**160.2**		**(4.4)**	**155.8**	

5.4. During the first quarter of 2023/24 the authorities net borrowing position has reduced by £4.4m. This is primarily due to the unwinding of temporary/short-term borrowing which was replaced in advance by long-term borrowing at the end of 2022/23.

6. <u>Borrowing activity during the quarter</u>

6.1. There has been a substantial rise in the cost of both short and long-term borrowing over the last 18 months. In this quarter, Bank Rate rose from 4.25% at the beginning of April to 5.0% at the end of the quarter.

6.2. Gilt yields faced upward pressure since early April following signs that UK growth has been more resilient and inflation stickier than expected. Consequently, PWLB borrowing rates continued to rise over the quarter. On 30th June, the PWLB certainty rates for maturity loans were 5.25% for 10 year loans, 5.36% for 20-year loans and 4.95% for 50-year loans. Their equivalents on 31st March 2023 were 4.33%, 4.70% and 4.41% respectively.

Table 3: Borrowing Position

	31.3.23 Balance	31.3.23 Weighted Average Rate	31.3.23 Weighted Average	Balance Movement	30.6.23 Balance	30.6.23 Weighted Average Rate	30.6.23 Weighted Average

	£m	%	Maturity (years)		£m	%	Maturity (years)
Public Works Loan Board	119.8	3.3	22.8	(1.1)	118.7	3.3	21.4
Banks (LOBO)	13.6	4.8	18.8	0.0	13.6	4.8	18.5
Welsh Gov Interest Free	5.3	0.0	3.0	0.2	5.5	0.0	3.3
Local authorities/Other	60.0	2.6	0.3	(17.0)	43.0	3.1	0.3
Total borrowing	**198.7**	**3.1**	**15.2**	**(17.9)**	**180.8**	**3.2**	**15.6**

6.3. At 30th June the Authority held £180.8m of loans, a decrease of £17.9m from 31st March 2023 due to the unwinding of temporary/short-term borrowing which was replaced in advance by long-term borrowing at the end of 2022/23.

6.4. The Authority's short-term borrowing cost has continued to increase with the rise in Bank Rate and short-dated market rates. The average rate on the Authority's short-term loans at 30th June 2023 on a balance £43m was 3.1%, this compares with 2.6% on £60m of loans 3 months ago.

6.5. **Forward starting loans:** In a rising interest rate environment, and to enable certainty of cost to be achieved without suffering a cost of carry in the intervening period, the Authority arranged £25m of forward starting loans with fixed interest rates of 4.5% for the delivery of cash in under one year's time, details of which are below:

Table 4: Forward starting loans

	Amount £m	Rate %	Period (Years)	Forward Start
Local Authority Loan 1	5.0	3.8	1.0	Nov-23
Local Authority Loan 2	5.0	4.4	1.0	Sep-23
Local Authority Loan 3	5.0	4.5	1.0	Feb-24
Local Authority Loan 4	5.0	5.0	0.75	Aug-23
Local Authority Loan 5	5.0	5.0	0.75	Sep-23
Total	**25.0**	**4.5**		

6.6. There remains a strong argument for diversifying funding sources, particularly if rates can be achieved on alternatives which are below gilt yields + 0.80%. The Authority will evaluate and pursue these lower cost solutions and opportunities with its advisor Arlingclose.

6.7. **Other borrowing activity**

6.8. **LOBO Loans:** The Authority continues to hold £13.6m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate as set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost.

6.9. In a rising interest rate environment the probability of LOBOs being called has been higher than in the recent past. £7.0m of LOBO loans had annual call option dates during the first quarter, however no lender exercised their option.

6.10. The Authority has £6.6m of LOBO loans with call dates within the next 9 months. The Authority has liaised with treasury management advisors Arlingclose over the likelihood of the options being exercised. If required, the Authority will repay the LOBO loans with available cash, by borrowing from other local authorities, or from the PWLB.

7. Treasury Investment Activity

7.1. The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During the first quarter, the Authority's investment balances ranged from between £25.0m and £65.2m due to timing differences between income and expenditure. The investment position at the end of the first quarter was:

Table 5: Treasury Investment Position

	31.3.23 Balance £m	Net Movement £m	31.6.23 Balance £m	31.3.23 Income Return %	31.3.23 Weighted Average Maturity Days
Banks & building societies (unsecured)	(2.0)	1.5	(0.5)	Average 4.37%	Up to 180 days
Government (incl. local authorities	(13.0)	10.0	(3.0)		
Money Market Funds (MMFs)	(19.5)	2.0	(17.5)		
Multi asset income, Pooled funds	(4.0)	0.0	(4.0)	5.46%	N/A
Total investments	**(38.5)**	**13.5**	**(25.0)**		

7.2. As demonstrated by the liability benchmark in this report, the Authority expects to be a long-term borrower and new treasury investments are therefore primarily made to manage day-to-day cash flows using short-term low risk instruments. The existing portfolio of strategic pooled funds will be maintained to diversify risk into different sectors and increase investment income.

7.3. Bank Rate increased by 0.75%, from 4.25% at the beginning of April to 5% by the end of June, with the prospect of further increases to come. Short-dated cash rates rose commensurately, with 3-month rates rising to around 5.25% and 12-month rates to nearly 6%. The rates on DMADF deposits also rose, ranging between 4.8% and 5.4% by the end of June and Money Market Rates between 4.70% and 4.83%.

7.4. Given the comparably higher returns available from DMADF deposits compared to Money market rates over recent months (which is at odds with recent historic trends), the Authority will look to adjust its position accordingly in quarter two of the year.

7.5. The comparison of risk and return metrics are shown in the extracts from Arlingclose's quarterly investment benchmarking in the table below.

Table 6: Investment Benchmarking – Treasury investments managed in-house

	Credit Score	Credit Rating	Bail-in Exposure	Weighted Average Maturity (days)	Rate of Return %
MCC 31.03.2023	AA-	4.46	62%	4	3.89
MCC 30.06.2023	AA-	3.90	86%	TBC	4.54
Similar LAs	TBC	TBC	TBC	TBC	TBC
All LAs	TBC	TBC	TBC	TBC	TBC

7.6. **Externally Managed Pooled Funds:** £4m of the Authority's investments are invested in externally managed strategic pooled multi-asset and property funds where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and longer-term price stability. These funds generated £48k or an annualised average 5.46% income return, together with a £7k unrealised capital loss over the first quarter. Total unrealised capital losses since purchase stand at £437k.

7.7. Financial market conditions remained volatile during the quarter, but favourable in some areas. Resilient economic data, which led to diminishing talk of recessions at a time when interest rate peaks are thought to be near initially helped UK, euro-area and US equity markets. However, UK equities fell in May (sterling's strength weighed on some sectors) and ended the quarter marginally lower. Eurozone equities were slightly higher but did not match the larger global rally in US equities (helped by a soft-landing scenario for the economy and enthusiasm over AI) and Japanese equities.

7.8. Fixed income markets, however, moved lower as interest rate expectations picked up again. This was most apparent in the UK government gilts with rising yields (i.e. prices falling) on higher than expected inflation. Corporate bond yields also rose but were helped by a narrowing in credit spreads as the fallout from the March mini-bank crisis continued to fade. This has directly affected capital values of the Authority's multi-asset funds where there was some beneficial offset from equity performance.

7.9. UK property markets continued to struggle as higher interest rates and bond yields and higher funding costs weighed on the sector. There was some improvement in May, building on signs of returning investor interest and transactional activity in calendar Q1 and a perception that the downturn in commercial real estate may be bottoming out. This has helped support capital values and rental income. The additional move upwards in yields in late May/June and the prospect of sluggish economic growth however constrain the outlook.

7.10. Because pooled funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's medium to long-term investment objectives are regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over the longer term that total returns will exceed cash interest rates.

7.11. **Statutory override**: In April 2023 the Department for Levelling Up, Housing and Communities published the full outcome of the consultation on the extension of the statutory override on accounting for gains and losses on pooled investment funds. The override has been extended for 2 years until 31st March 2025 but no other changes have been made; Welsh Government have similarly extended the statutory override.

7.12. Whether the override will be extended beyond the new date is currently unknown but commentary to the consultation outcome suggests not. The Authority will discuss with Arlingclose the implications for the investment strategy and what action may need to be taken over the two year period.

7.13. The Authority maintains a treasury risk reserve to mitigate against the risk that capital losses on pooled funds are realised and result in a charge against the Council Fund.

8. Environmental, Social and Governance strategy update

8.1. Update TBC

9. Treasury performance forecast

9.1. The Authority measures the financial performance of its treasury management activities in terms of its impact on the revenue budget with the latest forecast shown in the table below:

Table 7: Budget performance forecast

	Forecast £000's	Budget £000's	Over / (under) Budget
Interest Payable			
PWLB	3,788	3,922	(134)
Market loans	652	652	0
Short term loans	2,658	2,316	342
Other Activities (Internal Arrangements)	301	61	240
Total Interest payable on borrowing	**7,399**	**6,951**	**448**
Interest Receivable			
Invested cash short term	(910)	(925)	15
Pooled Funds	(155)	Included above	(155)
Finance lease income	(55)	Included above	(55)
Other Interest	(3)	Included above	(3)
Total income from Investments	**(1,123)**	**(925)**	**(198)**
Net Over/(Under)spend	**6,276**	**6,026**	**250**

10. Non-Treasury Investments

10.1. The definition of investments in CIPFA's Treasury Management Code covers all the financial assets of the Authority as well as other non-financial assets which the Authority holds primarily for financial return. Investments that do not meet the definition of treasury management investments (i.e. management of surplus cash) are categorised as either for service purposes (made explicitly to further service objectives) and/or for commercial purposes (made primarily for financial return).

10.2. The Authority held a net book value of £31.6m of such non-financial asset investments at the 31st March 2023 (£30.4m as at 31st March 2022) made up of:

	Net (income) / loss 2022/23 £000's	Carrying Value 31.03.23 £000's	Net return 2022/23 %	Net return 2021/22 %
Oak Grove Solar Farm	(737)	5,485	13.44	11.02
Newport Leisure Park & service loan	(2)	19,756	0.01	3.05
Castlegate Business Park	405	6,159	(6.58)	0.66
Commercial loan – Broadway partners	(211)	763	0.78	0.78
Total	**(334)**	**31,600**	**1.06**	**4.02**

10.3. The Authority also holds the following portfolio of legacy non-financial asset investments that have been held for over a decade and are retained for income generation, capital gain or to support wider economic development or broader policy objectives. Income generation for these assets is a secondary consideration and as such return against original investment would be considered negligible.

	Net (income) / loss 2022/23 £000's	Carrying Value 31.03.23 £000's
Agricultural Properties	33,600	27,800
Industrial Properties and Retail units	3,400	3,500

10.4. Update TBC

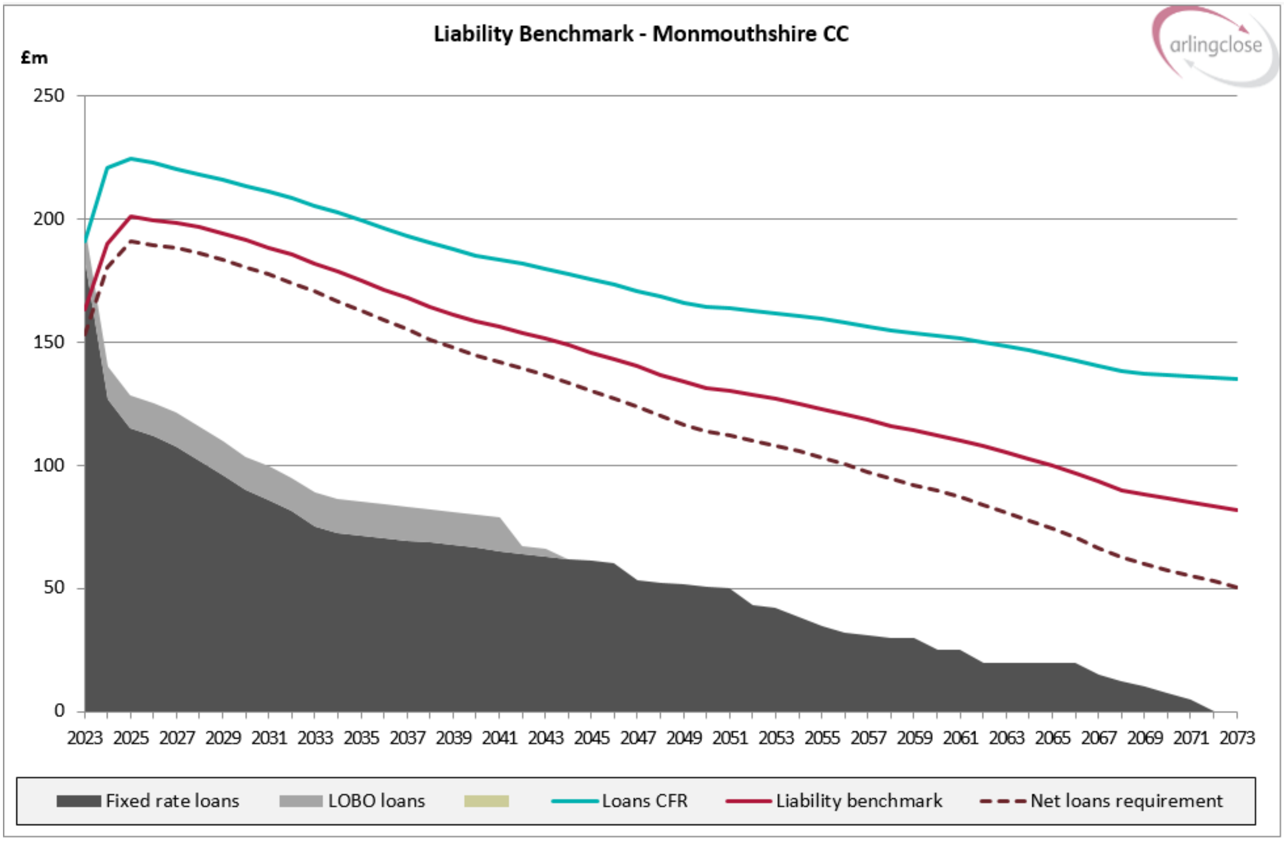
11. Compliance with prudential indicators and treasury limits

11.1. The Section 151 officer reports that all treasury management activities undertaken during the first quarter complied fully with the CIPFA code and the limits and indicators as set out in the Authority's approved Treasury Management Strategy.

11.2. **Liability Benchmark:** This indicator compares the Authority's actual existing borrowing against a liability benchmark that has been calculated to show the lowest risk level of borrowing. The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. It represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.

	31.3.23 Actual	31.3.24 Forecast	31.3.25 Forecast	31.3.26 Forecast
Loans CFR	190.9	220.8	224.7	222.9
Less: Balance sheet resources	(37.6)	(40.6)	(33.4)	(33.2)
Net loans requirement	153.3	180.2	191.3	189.7
Plus: Liquidity allowance	10.0	10.0	10.0	10.0
Liability benchmark	**163.3**	**190.2**	**201.3**	**199.7**
Current loan profile	(198.7)	(140.4)	(128.7)	(125.5)
Borrowing requirement	**0.0**	**49.8**	**72.6**	**74.2**

11.3. Following on from the medium-term forecast above, the long-term liability benchmark assumes capital expenditure funded by borrowing is in line with the medium-term financial plan, minimum revenue provision on new capital expenditure is based on the annuity method, and expenditure and reserves all increasing by inflation of 2.5% p.a. This is shown in the chart below together with the maturity profile of the Authority's existing borrowing.



11.4. **Maturity Structure of Borrowing:** This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing were:

Maturity	30.6.23 Actual	Lower Limit	Upper Limit	Complied?
Under 12 months	27%	0%	60%	Yes
12 months and within 24 months	4%	0%	30%	Yes
24 months and within 5 years	7%	0%	30%	Yes
5 years and within 10 years	15%	0%	30%	Yes
10 years and within 20 years	13%	0%	30%	Yes
20 years and within 30 years	12%	0%	30%	Yes
30 years and within 40 years	11%	0%	30%	Yes
40 years and within 50 years	11%	0%	30%	Yes
50 years and above	0%	0%	30%	Yes

11.5. **Long-Term Treasury Management Investments:** The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The prudential limits on the long-term treasury management limits are**:**

	During quarter
Actual principal invested for 365 days & beyond year end	£0m
Limit	£5m
Complied?	Yes

11.6. Long-term investments with no fixed maturity date include strategic pooled funds, real estate investment trusts and directly held equity but exclude money market funds and bank accounts with no fixed maturity date as these are considered short-term.

11.7. **Security:** The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating or credit score of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

	30.6.23 Actual	2023/24 Target	Complied?
Portfolio average credit	AA-/3.90	A-/5.0	Yes

11.8. **Borrowing limits:** Compliance with the authorised limit and operational boundary for external debt is demonstrated below.

	Q1 2023/24 Maximum during the quarter £m	30.6.23 Actual £m	2023/24 Operational Boundary £m	2023/24 Authorised Limit £m	Complied? Yes/No
Borrowing	198.7	180.8	239.9	263.9	Yes
PFI, Finance Leases & Other LT liabs	2.2	2.2	2.9	4.4	Yes
Total debt	**200.9**	**183.0**	**242.8**	**268.3**	**Yes**

11.9. **Note**: Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure.

11.10. **Treasury investment counterparties and limits -** The Council may invest its surplus funds with any of the counterparty types in the table below, subject to the limits shown:

	Maximum in quarter	30.6.23 Actual	2023/24 Limit	Complied? Yes/No
The UK Government	£34.3m	£3m	Unlimited	Yes
Local Authorities per counterparty	£0m	£0	£4m	Yes
Secured Investments	£0m	£0	£4m	Yes
Banks per counterparty, rating A- or above	£2m (£3m total for the Councils operational bank)	£0.5m	£2m (£3m total for the Councils operational bank)	Yes
Building societies (unsecured)	£0m	£0	£2m	Yes
Registered providers (e.g. Housing Associations (unsecured)	£0m	£0	£2m	Yes

Money Market Funds	£4m	£4m	£4m	Yes
Any group of pooled funds under the same management	£2m	£2m	£5m	Yes
Real estate investment trusts	£0m	£0	£5m	Yes
Limit per non-UK country	£0m	£0	£4m	Yes
Other Investments	£0m	£0	£2m	Yes

12. **CONSULTEES**

Cabinet Member - Resources

Deputy Chief Executive, (Section 151 officer)

Arlingclose Limited – External Treasury management advisors to Monmouthshire CC

13. **BACKGROUND PAPERS**

Glossary of treasury terms

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Background paper: Glossary of Treasury Terms

Authorised Limit	The affordable borrowing limit determined in compliance with the Local Government Act 2003 (English and Welsh authorities) and the Local Government in Scotland Act 2003. This Prudential Indicator is a statutory limit for total external debt. It is set by the Authority and needs to be consistent with the Authority's plans for capital expenditure financing and funding. The Authorised Limit provides headroom over and above the *Operational Boundary* to accommodate expected cash movements. Affordability and prudence are matters which must be taken into account when setting this limit. (see **also** *Operational Boundary*, below)
Balances and Reserves	Accumulated sums that are maintained either earmarked for specific future costs or commitments or generally held to meet unforeseen or emergency expenditure.
Bail-in	Refers to the process which the banking regulatory authorities will use to restructure a financial institution which is failing or likely to fail. Unsecured creditors of and investors in that financial institution will participate in its restructure who will, as a consequence, incur a non-recoverable loss (commonly referred to as a 'haircut') on their obligation/investment. Local authority investments with banks and building societies such as term deposits, certificates of deposit, call accounts and non-collateralised bonds are unsecured investments and are therefore vulnerable to bail-in.
Bank Rate	The official interest rate set by the Bank of England's Monetary Policy Committee and what is generally termed at the "base rate". This rate is also referred to as the 'repo rate'.
Bond	A certificate of debt issued by a company, government, or other institution. The bond holder receives interest at a rate stated at the time of issue of the bond. The price of a bond may vary during its life.
Capital Expenditure	Expenditure on the acquisition, creation or enhancement of capital assets
Capital Financing Requirement (CFR)	The Council's underlying need to borrow for capital purposes representing the cumulative capital expenditure of the local authority that has not been financed.
Capital growth	Increase in the value of the asset (in the context of a collective investment scheme, it will be the increase in the unit price of the fund)
Capital receipts	Money obtained on the sale of a capital asset.
CIPFA	Chartered Institute of Public Finance and Accountancy
Constant Net Asset Value (CNAV)	Also referred to as Stable Net Asset Value. A term used in relation to the valuation of 1 share in a fund. This means that at all times the value of 1 share is £1/€1/US$1 (depending on the currency of the fund). The Constant NAV is maintained since dividend income (or interest) is either added to the shareholders' account by creating shares equal to the value of interest earned or paid to the shareholder's bank account, depending on which option is selected by the shareholder.
Collective Investment Schemes	Funds in which several investors collectively hold units or shares. The assets in the fund are not held directly by each investor, but as part of a pool (hence these funds are also referred to as 'Pooled Funds'). Unit Trusts and Open-Ended Investment Companies are types of collective investment schemes / pooled funds.
Corporate Bonds	Corporate bonds are bonds issued by companies. The term is often used to cover all bonds other than those issued by governments in their own currencies and includes issues by companies, supranational organisations and government agencies.

Corporate Bond Funds	Collective Investment Schemes investing predominantly in bonds issued by companies and supranational organisations.
CPI ***Also see RPI***	Consumer Price Index. (This measure is used as the Bank of England's inflation target.)
Credit Default Swap (CDS)	A Credit Default Swap is similar to an insurance policy against a credit default. Both the buyer and seller of a CDS are exposed to credit risk. Naked CDS, i.e. one which is not linked to an underlying security, can lead to speculative trading.
Credit Rating	Formal opinion by a registered rating agency of a counterparty's future ability to meet its financial liabilities; these are opinions only and not guarantees.
Cost of carry	When a loan is borrowed in advance of requirement, this is the difference between the interest rate and (other associated costs) on the loan and the income earned from investing the cash in the interim.
Credit default swaps	Financial instrument for swapping the risk of debt default; the buyer effectively pays a premium against the risk of default.
Diversification / diversified exposure	The spreading of investments among different types of assets or between markets in order to reduce risk.
Derivatives	Financial instruments whose value, and price, are dependent on one or more underlying assets. Derivatives can be used to gain exposure to, or to help protect against, expected changes in the value of the underlying investments. Derivatives may be traded on a regulated exchange or traded 'over the counter'.
ECB	European Central Bank
Federal Reserve	The US central bank. (Often referred to as "the Fed")
Floating Rate Notes	A bond issued by a company where the interest rate paid on the bond changes at set intervals (generally every 3 months). The rate of interest is linked to LIBOR and may therefore increase or decrease at each rate setting
GDP	Gross domestic product – also termed as "growth" in the economy. The value of the national aggregate production of goods and services in the economy.
General Fund	This includes most of the day-to-day spending and income. (All spending and income related to the management and maintenance of the housing stock is kept separately in the HRA).
Gilts (UK Govt)	Gilts are bonds issued by the UK Government. They take their name from 'gilt-edged': being issued by the UK government, they are deemed to be very secure as the investor expects to receive the full face value of the bond to be repaid on maturity.
Housing Revenue Account (HRA)	A ring-fenced account of all housing income and expenditure, required by statute
IFRS	International Financial Reporting Standards
Income Distribution	The payment made to investors from the income generated by a fund; such a payment can also be referred to as a 'dividend'

Investments - **Secured** - **unsecured**	Secured investments which have underlying collateral in the form of assets which can be called upon in the event of default Unsecured investments do not have underlying collateral. Such investments made by local authorities with banks and building societies are at risk of bail-in should the regulator determine that the bank is failing or likely to fail.
Liability Benchmark	Term in CIPFA's Risk Management Toolkit which refers to the minimum amount of borrowing required to keep investments at a minimum liquidity level (which may be zero).
LOBOs	LOBO stands for 'Lender's Option Borrower's Option'. The underlying loan facility is typically long term and the interest rate is fixed. However, in the LOBO facility the lender has the option to call on the facilities at predetermined future dates. On these call dates, the lender can propose or impose a new fixed rate for the remaining term of the facility and the borrower has the 'option' to either accept the new imposed fixed rate or repay the loan facility.
LVNAV (Low Volatility Net Asset Value)	From 2019 Money Market Funds will have to operate under a variable Net Value Structure with minimal volatility (fluctuations around £1 limited to between 99.8p to 100.2p)
Maturity	The date when an investment or borrowing is repaid.
Maturity profile	A table or graph showing the amount (or percentage) of debt or investments maturing over a time period. The amount or percent maturing could be shown on a year-by-year or quarter-by-quarter or month-by-month basis.
MiFID II	MiFID II replaced the Markets in Financial Instruments Directive (MiFID I) from 3 January 2018. It is a legislative framework instituted by the European Union to regulate financial markets in the bloc and improve protections for investors.
Money Market Funds (MMF)	Pooled funds which invest in a range of short term assets providing high credit quality and high liquidity.
Minimum Revenue Provision	An annual provision that the Authority is statutorily required to set aside and charge to the Revenue Account for the repayment of debt associated with expenditure incurred on capital assets
Non-Specified Investments	Term used in the Communities and Local Government Guidance and Welsh Assembly Guidance for Local Authority Investments. It includes any investment for periods greater than one year or those with bodies that do not have a high credit rating, use of which must be justified.
Net Asset Value (NAV)	A fund's net asset value is calculated by taking the current value of the fund's assets and subtracting its liabilities.
Operational Boundary	This is the limit set by the Authority as its most likely, i.e. prudent, estimate level of external debt, but not the worst case scenario. This limit links directly to the Authority's plans for capital expenditure, the estimates of the Capital Financing Requirement (CFR) and the estimate of cashflow requirements for the year.
Permitted Investments	Term used by Scottish Authorities as those the Authority has formally approved for use.
Pooled funds	See Collective Investment Schemes (above)

Premiums and Discounts	In the context of local authority borrowing, (a) the premium is the penalty arising when a loan is redeemed prior to its maturity date and (b) the discount is the gain arising when a loan is redeemed prior to its maturity date. If on a £1 million loan, it is calculated* that a £100,000 premium is payable on premature redemption, then the amount paid by the borrower to redeem the loan is £1,100,000 plus accrued interest. If on a £1 million loan, it is calculated that a £100,000 discount receivable on premature redemption, then the amount paid by the borrower to redeem the loan is £900,000 plus accrued interest. PWLB premium/discount rates are calculated according to the length of time to maturity, current market rates (plus a margin), and the existing loan rate which then produces a premium/discount dependent on whether the discount rate is lower/higher than the coupon rate. *The calculation of the total amount payable to redeem a loan borrowed from the Public Works Loans Board (PWLB) is the present value of the remaining payments of principal and interest due in respect of the loan being repaid prematurely, calculated on normal actuarial principles. More details are contained in the PWLB's lending arrangements circular.
Private Finance Initiative (PFI)	Private Finance Initiative (PFI) provides a way of funding major capital investments, without immediate recourse to the public purse. Private consortia, usually involving large construction firms, are contracted to design, build, and in some cases manage new projects. Contracts can typically last for 30 years, during which time the asset is leased by a public authority.
Prudential Code	Developed by CIPFA and introduced on 01/4/2004 as a professional code of practice to support local authority capital investment planning within a clear, affordable, prudent and sustainable framework and in accordance with good professional practice.
Prudential Indicators	Indicators determined by the local authority to define its capital expenditure and asset management framework. They are designed to support and record local decision making in a manner that is publicly accountable; they are not intended to be comparative performance indicators between authorities.
PWLB	Public Works Loans Board. It is a statutory body operating within the United Kingdom Debt Management Office, an Executive Agency of HM Treasury. The PWLB's function is to lend money from the National Loans Fund to local authorities and other prescribed bodies, and to collect the repayments.
Quantitative Easing	In relation to the UK, it is the process used by the Bank of England to directly increase the quantity of money in the economy. It "does not involve printing more banknotes. Instead, the Bank buys assets from private sector institutions – that could be insurance companies, pension funds, banks or non-financial firms – and credits the seller's bank account. So the seller has more money in their bank account, while their bank holds a corresponding claim against the Bank of England (known as reserves). The end result is more money out in the wider economy". Source: Bank of England
Registered Provider of Social Housing	Formerly known as Housing Association
Revenue Expenditure	Expenditure to meet the continuing cost of delivery of services including salaries and wages, the purchase of materials and capital financing charges
RPI	Retail Prices Index. A monthly index demonstrating the movement in the cost of living as it tracks the prices of goods and services including mortgage interest and rent. Pensions and index-linked gilts are uprated using the CPI index.

SORP	Statement of Recommended Practice for Accounting (Code of Practice on Local Authority Accounting in the United Kingdom).
Specified Investments	Term used in the CLG Guidance and Welsh Assembly Guidance for Local Authority Investments. Investments that offer high security and high liquidity, in sterling and for no more than 1 year. UK government, local authorities and bodies that have a high credit rating.
Supported Borrowing	Borrowing for which the costs are supported by the government or third party.
Supranational Bonds	Instruments issued by supranational organisations created by governments through international treaties (often called multilateral development banks). The bonds carry an AAA rating in their own right. Examples of supranational organisations are those issued by the European Investment Bank, the International Bank for Reconstruction and Development.
Treasury Management Code	CIPFA's Code of Practice for Treasury Management in the Public Services.
Temporary Borrowing	Borrowing to cover peaks and troughs of cash flow, not to fund spending.
Term Deposits	Deposits of cash with terms attached relating to maturity and rate of return (interest)
Unsupported Borrowing	Borrowing which is self-financed by the local authority. This is also sometimes referred to as Prudential Borrowing.
Usable Reserves	Resources available to finance future revenue and capital expenditure
Variable Net Asset Value (VNAV)	A term used in relation to the valuation of 1 share in a fund. This means that the net asset value (NAV) of these funds is calculated daily based on market prices.
Working Capital	Timing differences between income/expenditure and receipts/payments
Yield	The measure of the return on an investment instrument