

## REPORT

<b>SUBJECT:</b>	<b>TREASURY MANAGEMENT ACTIVITY UPDATE - QUARTER 3 2023/24</b>
<b>MEETING:</b>	<b>Governance &amp; Audit Committee</b>
<b>DATE:</b>	<b>22<sup>nd</sup> February 2024</b>
<b>DIVISIONS/WARD AFFECTED:</b>	<b>All</b>

### 1. **PURPOSE:**

- 1.1. The Prudential Code and CIPFA treasury guidance require 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.
- 1.2. The Authority's treasury management strategy for 2023/24 was approved by Council on 9<sup>th</sup> March 2023. Over the third quarter of the year the Authority has continued to borrow and invest 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.
- 1.3. This report represents the third update of treasury management activity during 2023/24 following the Quarter 1 report being considered by this Committee on the 27<sup>th</sup> of July 2023 and Quarter 2 on the 4<sup>th</sup> of December 2023.

### 2. **RECOMMENDATIONS:**

That Governance & Audit committee review the treasury management activities and the performance achieved in the third 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. **Key data metrics during the quarter:**

Type	Metric	Start of Quarter	End of Quarter
External	Bank of England base rate	5.25%	5.25%
External	UK Consumer Prices Index	6.7%	4.0%
External	10-year UK gilt yield	4.45%	3.61%
Internal	Borrowing	179.4m	173.5m
Internal	Borrowing Average rate	3.38%	3.47%
Internal	Investments	34.0m	13.6m
Internal	Investment Average rate	4.88%	4.76%
Internal	Credit score/rating	AA- / 3.91	AA- 4.08

#### 3.2. **Key messages:**

***Treasury management activities undertaken during the quarter complied fully with the CIPFA code and the limits and indicators as set out in the Authority's approved Treasury Management Strategy.***

***The Authority has maintained a diverse investment portfolio while slightly increasing Money Market Fund Investments as returns have improved compared to Government investments.***

***Cash balances have reduced as investments have been allowed to mature in order to satisfy short-term cashflow requirements.***

***£7m of Lender Option Borrower Option loans were called during the quarter. The Authority chose to repay these at nil cost refinancing with new PWLB borrowing at lower rates.***

***The new Environmental, Social and Governance (ESG) specific investment product has continued to be used during the period. The fund has offered returns marginally lower than non-ESG specific funds but remains an important aspect of the authority's proactive approach to its ESG commitment.***

#### **4. ECONOMIC SUMMARY**

- 4.1. During the third quarter of 2023/24 UK inflation rates finally started to decline. Despite the fall, the Consumer Price Index (CPI) remained substantially in excess in the Bank of England's (BoE) 2% target, at 3.9% for November 2023. Market expectations for further rises in Bank Rate fell from October through to year end, indicating that the 5.25% level reached in August 2023 was indeed the peak for Bank Rate.
- 4.2. Inflation continued to fall from its peak as annual headline CPI declined to 4% (down from 6.7%) in December 2023. The largest downward contribution came from energy and food prices. The core rate also surprised on the downside, falling to 5.1% from 5.7%.
- 4.3. Economic growth in the UK remained weak over the period, edging into recessionary territory. In calendar Q3 2023, the economy contracted by 0.1%, following no change in Q2. Monthly GDP data showed a 0.3% contraction in October, following a 0.2% rise in September. While other indicators have suggested a pickup in activity in the subsequent months, Q4 GDP growth is likely to continue the weak trend.

#### **5. BORROWING ACTIVITY DURING THE QUARTER:**

- 5.1. UK gilt yields have begun to fall over the quarter as a result of slowing inflation and the perception of an increasingly struggling economy. Rate cuts will be required in the medium term to stimulate the economy but there will be a reluctance to do so until core and service inflation are fully under control.
- 5.2. Gilt yields, and consequently PWLB borrowing rates, fell towards the end of the period. On 31st December, the PWLB certainty rates for maturity loans were 4.37% for 10 year loans, 4.90% for 20-year loans and 4.68% for 50-year loans. Their equivalents on 30th September 2023 were 5.26%, 5.64% and 5.43% respectively.
- 5.3. The authorities' borrowing position at the end of the third quarter can be seen below:

	<b>30.9.23 Balance</b>	<b>30.9.23 Weighted Average Rate</b>	<b>30.9.23 Weighted Average</b>	<b>Balance Movement</b>	<b>31.12.23 Balance</b>	<b>31.12.23 Weighted Average Rate</b>	<b>31.12.23 Weighted Average</b>
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	£m	%	Maturity (years)		£m	%	Maturity (years)
Public Works Loan Board	115.9	3.2	21.7	6.3	122.2	3.3	20.8
Banks (LOBO)	10.0	4.9	18.4	(7.0)	3.0	4.5	19.9
Welsh Gov Interest Free	5.5	0.0	3.3	(0.2)	5.3	0.0	2.9
Local authorities/Other	48.0	3.9	0.5	(5.0)	43.0	4.4	0.4
<b>Total borrowing</b>	<b>179.4</b>	<b>3.2</b>	<b>15.2</b>	<b>(5.9)</b>	<b>173.5</b>	<b>3.5</b>	<b>15.1</b>

5.4. The authorities total borrowing has reduced slightly over the third quarter.

5.5. One lender exercised their option to call a Lender's Option Borrower's Option Loan (LOBO) loan during the period. This proposed an increased interest rate on the £7.0m loan from 5.03% to 6.9%. The authority chose to repay this loan at no extra cost, financing initially through short term cashflows and then through two new PWLB equal instalment of principal (EIP) loans. The replacement loans were taken at a marginally lower rate than the existing 5.03% payable on the matured LOBO loan.

## 6. INVESTMENT ACTIVITY DURING THE QUARTER:

6.1. During the second quarter, the authority's investment balances ranged from between £16.5m and £57.5m due to timing differences between income and expenditure. The movement in investments during the quarter was:

	30.9.23 Balance	Net Movement	31.12.23 Balance	31.12.23 Income Return	31.12.23 Weighted Average Maturity Days
	£m	£m	£m	%	
Banks & building societies (unsecured)	(2.0)	0.5	(1.5)	Average 4.5%	Up to 180 days
Government (incl. local authorities)	(24.5)	21.5	(3.0)		
Money Market Funds (MMFs)	(3.5)	(1.6)	(5.1)		
Multi asset income, Pooled funds	(4.0)	0.0	(4.0)	5.77%	N/A
<b>Total investments</b>	<b>(34.0)</b>	<b>20.4</b>	<b>(13.6)</b>	<b>4.76</b>	

6.2. Bank Rate has remained at 5.25% throughout the quarter having started the financial year at 4.25%. Short term rates peaked at 5.6% for 3-month rates and 6.6% for 12-month rates during the period, although these rates subsequently began to reduce towards the end of the period. Money Market Rates also rose and were between 5.17% and 5.39 by the end of December.

6.3. The Authority has maintained a diverse investment portfolio during the quarter while slightly increasing Money Market Fund Investments as returns have improved compared to Government investments. Whilst this increases bail-in risk slightly, this needs to be considered in the context of much lower investment balances held at the end of quarter three.

6.4. £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 £154k or an annualised average 5.77% income return, together with a £57k unrealised capital gain over the second quarter (76k unrealised loss over Q2). Total unrealised capital losses since purchase stand at £384k (£506k at Q2).

## 7. NON-TREASURY INVESTMENTS:

7.1. The authority continues to hold £31.4m of non-financial asset investments and their forecast performance can be seen in the table below:

	<b>Forecast Net (income) / loss @ Month 9 2023/24 £000's</b>	<b>Carrying Value 31.03.23 £000's</b>	<b>Net return 2023/24 %</b>	<b>Net return 2022/23 %</b>
Oak Grove Solar Farm	(568)	5,485	10.36	13.44
Newport Leisure Park & service loan	(291)	19,756	1.47	0.01
Castlegate Business Park	216	6,159	(3.51)	(6.58)
<b>Total</b>	<b>(643)</b>	<b>31,400</b>	<b>2.05</b>	<b>1.06</b>

7.2. The investment at Newport Leisure park continues to provide a net income stream for the Authority, although this remains lower than the expected 2% return after borrowing until currently negotiated rent free periods end.

7.3. The investment in Castlegate is still providing a net negative ROI, however continued negotiations with interested parties should bring back a positive net return in 2024-25 following rent free periods. This continues to represent a significant improvement on the position since the anchor tenant vacated their space in Spring 2022.

#### 8. **ESG:**

8.1. The new Environmental, Social and Governance (ESG) specific investment product has continued to be used during the period. The fund has offered returns marginally lower than non ESG specific funds but remains an important aspect of the authority's proactive approach to its ESG commitment.

8.2. The authority's investment portfolio is reviewed against three ethical investment charters which are updated each quarter. Any funds which do not sign up to each of the three charters will be removed from the investment portfolio.

#### 9. **CONSULTEES**

Cabinet Member - Resources

Deputy Chief Executive, (Section 151 officer)

Arlingclose Limited – External Treasury management advisors to Monmouthshire CC

#### 10. **BACKGROUND PAPERS**

Appendix 1

Glossary of treasury terms

#### 11. **AUTHORS**

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