REPORT

SUBJECT:	**TREASURY MANAGEMENT OUTTURN REPORT 2023/24**
MEETING:	**Governance & Audit Committee**
DATE:	**6th June 2024**
DIVISIONS/WARD AFFECTED:	**All**

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. This report represents the fourth and final update of treasury management activity during 2023/24.

2. **RECOMMENDATIONS:**

That Governance & Audit committee review the results of treasury management activities and the performance achieved in quarter 4 and throughout 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 final 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.

3.2. **Key data metrics during the quarter:**

Type	Metric	Q1	Q2	Q3	Q4
External	Bank of England base rate	4.5%	5.25%	5.25%	5.25%
External	UK Consumer Prices Index	7.9%	6.7%	4.0%	3.2%
External	10-year UK gilt yield	4.39%	4.45%	3.61%	3.94%
Internal	Borrowing	£180.8m	£179.4m	£173.5m	£173.9m
Internal	Borrowing Average rate	3.24%	3.38%	3.47%	3.50%
Internal	Investments	£25.0m	£34.0m	£13.6m	£11.9m
Internal	Investment Average rate	4.54%	4.88%	5.09%	5.16%
Internal	Credit score/rating	AA- / 3.90	AA- / 3.91	AA- / 4.08	A+ / 4.51

3.3. **Key messages:**

Treasury management activities undertaken during the last quarter and consequently for the 2023/24 financial year complied fully with the CIPFA code and the limits and indicators as set out in the Authority's approved Treasury Management Strategy.
The Authorities average cost of borrowing has increased over the year, driven by increases in Gilt yields which have remained volatile. Yields have seen upward pressure from perceived sticker inflation, but also downward pressure from falling inflation and a struggling economy.
£10.6m of Lender Option Borrower Option (LOBO) loans were called during the year. The Authority chose to repay these at no extra cost, refinancing temporarily from short term cashflows and subsequently via new PWLB loans. This removes future interest rate risk.
Cash balances reduced over the year as part of the continued internal borrowing strategy. During the year, the authority's investment balances ranged from between £10.4m and £64.3m.
Investments in externally managed pooled funds generated £199k (5.6%) income return, together with a £72k (2.02%) unrealised capital gain in year. ***Unrealised capital losses over the lifetime of the investments stand at £365k, for which the Authority maintains a sufficient treasury risk reserve to mitigate against realisation.***
A new Environmental, Social and Governance (ESG) specific investment product has been opened during the year and will be prioritised for investment going forward where returns remain competitive.
Non-treasury investments, comprising the Authority's Solar farm and two strategic property assets, generated a £329k or 1.06% return (1.69% in 2022/23). This was inclusive of a bad debt write-off of £217k (return excluding write-off was 1.76%).

4. <u>ECONOMIC SUMMARY</u>

4.1. **Economic background:** UK inflation continued to decline from the 8.7% rate seen at the start of 2023/24. By the last quarter of the financial year headline consumer price inflation (CPI) had fallen to 3.2%, but was still above the Bank of England's 2% target at the end of the period. The core measure of CPI, i.e. excluding food and energy, also slowed in February to 4.5% from 5.1% in January, a rate that had stubbornly persisted for three consecutive months.

4.2. The UK economy entered a technical recession in the second half of 2023, as growth rates of -0.1% and -0.3% respectively were recorded for Q3 and Q4. Over the 2023 calendar year GDP growth only expanded by 0.1% compared to 2022. Of the recent monthly data, the Office for National Statistics reported a rebound in activity with economy expanding 0.2% in January 2024. While the economy may somewhat recover in Q1 2024, the data suggests that prior increases in interest rates and higher price levels are depressing growth, which will continue to bear down on inflation throughout 2024.

4.3. Having begun the financial year at 4.25%, the Bank of England's Monetary Policy Committee (MPC) increased Bank Rate to 5.25% in August 2023 with a 3-way split in the Committee's voting as the UK economy appeared resilient in the face of the dual headwinds of higher inflation and interest rates. Bank Rate was maintained at 5.25% through to March 2024. The vote at the March was 8-1 in favour of maintaining rates at this level, with the single dissenter preferring to cut rates immediately by 0.25%. Although financial markets shifted their interest rate expectations downwards with expectations of a cut in June, the MPC's focus remained on assessing how long interest rates would need to be restrictive in order to control inflation over the medium term.

5. <u>BORROWING ACTIVITY</u>

5.1. The Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio and, where practicable, to maintain borrowing and investments below their underlying levels, known as internal borrowing.

5.2. Gilt yields fell in late 2023, reaching April 2023 lows in December 2023 before rebounding to an extent in the first three months of 2024. Gilt yields have remained volatile, seeing upward pressure from perceived sticker inflation at times and downward pressure from falling inflation and a struggling economy at other times.

5.3. On 31st March 2024, the PWLB certainty rates for maturity loans were 4.74% for 10 year loans, 5.18% for 20-year loans and 5.01% for 50-year loans. Their equivalents on 31st March 2023 were 4.33%, 4.70% and 4.41% respectively.

5.4. The cost of short term borrowing from other local authorities has generally risen in line with Base Rate rises over the year. Available rates peaked at around 7% towards the later part of March 2024 as many authorities required cash at the same time. These rates have fallen back somewhat in April 2024.

5.5. The Authorities' borrowing position at the end of the year can be seen below:

	31.3.23 Balance £m	**31.3.23 Weighted Average Rate %**	**31.3.23 Weighted Average Maturity (years)**	**Balance Movement**	**31.3.24 Balance £m**	**31.3.24 Weighted Average Rate %**	**31.3.24 Weighted Average Maturity (years)**
Public Works Loan Board	119.8	3.3	22.8	5.3	125.1	3.3	20.1
Banks (LOBO)	13.6	4.8	18.8	(10.6)	3.0	4.5	19.6
Welsh Govt Interest Free	5.3	0.0	3.0	2.4	7.7	0.0	1.8
Local Authorities / Other	60.0	2.6	0.5	(22.0)	38.0	4.9	0.4
Total borrowing	**198.7**	**3.1**	**15.2**	**(24.8)**	**173.9**	**3.5**	**14.9**

5.6. The Authority's total borrowing has reduced over the year by £24.8m as cash and investment balances have been used in lieu of borrowing, as a result of pursuing the strategy of internal borrowing.

5.7. Two lenders exercised their option to call and increase the interest rate on Lender's Option Borrower's Option (LOBO) Loans. Loans of £7.0m and £3.6m had options exercised with proposed rates changing from 5.03% to 6.9% and 4.6% to 6.1% respectively. The Authority chose to repay these loans at no extra cost, financing initially through short term cashflows and then through two new PWLB equal instalment of principal (EIP) loans. Total borrowing was further reduced by the maturity of temporary loans and principal repayments of existing PWLB EIP loans.

6. <u>INVESTMENT ACTIVITY</u>

6.1. During the year, the authority's investment balances ranged from between £10.4m and £64.3m due to timing differences between income and expenditure. The movement in investments during the year was:

	31.3.23 Balance £m	Net Movement £m	31.3.24 Balance £m	31.3.24 Income Return %	31.3.24 Weighted Average Maturity Days
Banks & building societies (unsecured)	(2.0)	0.2	(1.9)	Average 4.93%	Up to 180 days
Government (incl. local authorities	(13.0)	10.0	(3.0)		
Money Market Funds (MMFs)	(19.5)	16.5	(3.0)		
Multi asset income, Pooled funds	(4.0)	0.0	(4.0)	5.6%	N/A
Total investments	**(38.5)**	**26.7**	**(11.9)**		

6.2. Bank Rate increased by 1% over the year, from 4.25% at the beginning of April 2023 to 5.25% by the end March 2024. Short term rates peaked at 5.7% for 3-month rates and 6.7% for 12-month rates during the period, although these rates subsequently began to decline towards the end of the period. Money Market Rates also rose and were between 5.15% and 5.29% by the end of March 2024.

6.3. **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.

6.4. These funds provide and important diversification for the Authority and generated £199k (5.6%) income return, together with a £72k (2.02%) unrealised capital gain in year.

6.5. Accumulated unrealised capital loses over the lifetime of the investment stand at £365k. The Authority maintains an adequate treasury risk reserve to mitigate against the risk that capital losses on pooled funds become realised and consequently result in a charge against the Council Fund.

7. Environmental, Social and Governance

7.1. Throughout the year the investment portfolio has been assessed against 3 charters that organisations can voluntarily sign up for to ensure that all are meeting minimum level of ESG responsibility.

7.2. The majority of the Authorities funds were invested in organisations that were signatories of all three charters. Investments in two funds that were not signatories of the Net-Zero Asset Managers Initiative have subsequently been unwound.

7.3. A new ESG specific Investment product opened during the year and continues to be used. This fund aims to provide security of capital and liquidity while focussing on the performance of the underlying issuers on a range of environmental, social and governance.

7.4. At 31st March 2024 the ESG specific Money Market Fund returned 5.15% compared to an average rate of 5.22% for all Money Market Funds. The best and worst performing funds earned 5.19% and 5.14% respectively.

8. **NON-TREASURY INVESTMENTS:**

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

	Net (income) / loss 2023/24 £000's	Carrying Value 31.03.24 £000's	Net return 2023/24 %	Net return 2022/23 %
Oak Grove Solar Farm	(530)	5,611	9.45	13.44
Newport Leisure Park & service loan	(29)	18,819	0.15*	0.01
Castlegate Business Park	230	6,654	-3.46	-6.58
Total	**(329)**	**31,084**	**1.06**	**1.69**

*Includes a one-off write-off of historic bad debt of £217k. Net return excluding this write-off would be 1.31% (overall portfolio 1.76%).

8.2. The investment at Oak Grove Solar Farm continues to provide an excellent return on investment and is reflective of the increase in energy prices and ability to export energy at a higher price.

8.3. 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. Expanded update to be provided in final version

8.4. The investment in Castlegate is still providing a net negative return on investment, however continued negotiations with interested parties should further improve the net return in 2024/25 following rent free periods. The majority of anchor tenant space is now occupied. This continues to represent a significant improvement on the position since the anchor tenant vacated their space in Spring 2022. Expanded update to be provided in final version

9. **Compliance with treasury limits and indicators**

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

10. **CONSULTEES**

Cabinet Member - Resources

Deputy Chief Executive, (Section 151 officer)

Arlingclose Limited – External Treasury management advisors to Monmouthshire CC

11. **BACKGROUND PAPERS**

Appendix 1 – 2023/24 Treasury Management Outturn report

Glossary of treasury terms

12. **AUTHORS**

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