

REPORT

SUBJECT:	TREASURY MANAGEMENT ACTIVITY UPDATE - QUARTER 1 2024/25
MEETING:	Governance & Audit Committee
DATE:	31st July 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.
- 1.2. The Authority's treasury management strategy for 2024/25 was approved by Council on 22nd March 2024. 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.
- 1.3. This report represents the first update of treasury management activity during 2024/25.

2. **RECOMMENDATIONS:**

That Governance & Audit committee review the results of treasury management activities and the performance achieved in quarter 1 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 at quarter end:**

Type	Metric	Q1 2324	Q2 2324	Q3 2324	Q4 2324	Q1 2425
External	Bank of England base rate	4.5%	5.25%	5.25%	5.25%	5.25%
External	UK Consumer Prices Index	7.9%	6.7%	4.0%	3.2%	2.0%
External	10-year UK gilt yield	4.39%	4.45%	3.61%	3.94%	4.29%
Internal	Borrowing	£180.8m	£179.4m	£173.5m	£173.9m	£177.7m
Internal	Borrowing Average rate	3.24%	3.38%	3.47%	3.50%	3.62%
Internal	Investments	£25.0m	£34.0m	£13.6m	£11.9m	£10.3m
Internal	Investment Average rate	4.54%	4.88%	5.09%	5.16%	5.30%
Internal	Credit score/rating	AA- / 3.90	AA- / 3.91	AA- / 4.08	A+ / 4.51	AA-/4.3

3.2. Key messages:

<p><i>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.</i></p>
<p><i>The Authorities average cost of borrowing has increased slightly from 3.5% to 3.62% over the quarter, reflective of slightly increased UK Gilt yields.</i></p>
<p><i>£3m of Lender Option Borrower Option (LOBO) loans were called during the quarter. The Authority chose to repay these at no extra cost, refinancing temporarily from short term cashflows until such time that longer term borrowing is deemed appropriate.</i></p>
<p><i>Cash balances reduced over the quarter by 1.6m to £10.3m as part of the continued internal borrowing strategy. During the quarter, the authority's investment balances ranged from between £10.3m and £32.9m.</i></p>
<p><i>Investments in externally managed pooled funds generated £49k (5.55%) income return, together with a £9k (-0.26%) unrealised capital loss during the quarter.</i></p>
<p><i>Unrealised capital losses over the lifetime of the investments stand at £378k, for which the Authority maintains a sufficient treasury risk reserve to mitigate against realisation.</i></p>
<p><i>The Authority continues to invest in a specific Environmental, Social and Governance (ESG) investment product and is prioritised for investment where returns remain competitive. During the quarter this product returned 5.07% compared to an average rate of 5.23% for all Money Market Funds.</i></p>
<p><i>Non-treasury investments, comprising the Authority's Solar farm and two strategic property assets, are budgeted to generate £647k or 2.5% return during 2024/25 (1.06% in 2023/24).</i></p>

4. ECONOMIC SUMMARY

- 4.1. **Economic background:** UK headline consumer price inflation (CPI) continued to decline over the quarter, falling from an annual rate of 3.2% in March to 2.0% in May, in line with the Bank of England's target. The core measure of inflation, however, only declined from 4.2% to 3.5% over the same period, which, together with stubborn service price inflation at 5.7% in May, helped contribute to the BoE maintaining Bank Rate at 5.25% during the period, a level unchanged since August 2023.
- 4.2. Data released during the period showed that showed the UK economy had emerged from the technical recession at the end of 2023 to expand by 0.7% (upwardly revised from the initial estimate of 0.6%) in the first quarter of the calendar year. Monthly GDP data showed zero growth in April following an expansion of 0.4% in the previous month.
- 4.3. Having started the financial year at 5.25%, the Bank of England's Monetary Policy Committee (MPC) maintained Bank Rate at this level throughout the quarter. In line with expectations, at its June meeting, the Committee voted by a majority of 7-2 in favour of maintaining the status quo. The two dissenters preferred an immediate 0.25% reduction in Bank Rate to 5.0%. This continued dovish tilt by the Committee increased financial market expectations that the first cut in Bank Rate will likely be in August.

5. BORROWING ACTIVITY

- 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 have risen slightly overall, having had a number of peaks and troughs. There has been downward pressure from lower inflation figures, but also upward pressure from unexpectedly positive economic data.
- 5.3. On 30th June 2024, the PWLB certainty rates for maturity loans were 4.96% for 10 year loans, 5.37% for 20-year loans and 5.18% for 50-year loans. Their equivalents on 31st March 2024 were 4.74%, 5.18% and 5.01% respectively.
- 5.4. The cost of short term borrowing from other local authorities remained static for the majority of the period before beginning to fall at the end of June. One year temporary borrowing fell to the lowest rate since May 2023.
- 5.5. The Authority's borrowing position at the end of the quarter can be seen below:

	31.3.24 Balance £m	31.3.24 Weighted Average Rate %	31.3.24 Weighted Average Maturity (years)	Balance Movement	30.6.24 Balance £m	30.6.24 Weighted Average Rate %	31.3.24 Weighted Average Maturity (years)
Public Works Loan Board	125.1	3.3	20.1	0.1	125.2	3.3	19.8
Banks (LOBO)	3.0	4.5	19.6	(3.0)	0.0	0.0	0.0
Welsh Govt Interest Free	7.7	0.0	1.8	(0.2)	7.5	0.0	1.7
Local Authorities / Other	38.0	4.9	0.4	7.0	45.0	5.0	0.3
Total borrowing	173.9	3.5	14.9	3.8	177.7	3.6	13.9

- 5.6. The Authority's total borrowing has increased over the quarter by £3.9m due to timing differences between temporary borrowing maturing and being replaced.
- 5.7. The lender holding the remaining Lender's Option Borrower's Option (LOBO) Loan opted to call and propose an interest rate increase on the £3m loan from 4.5% to 8.2%. Consequently, the Authority decided to repay the loan without incurring additional costs, utilising short-term cash flows and keeping open the possibility of long-term refinancing in the future.

6. **INVESTMENT ACTIVITY**

- 6.1. During the year, the authority's investment balances ranged from between £10.3m and £32.9m due to timing differences between income and expenditure. The movement in investments during the year was:

	31.3.24 Balance	Net Movement	30.6.24 Balance	30.6.24 Income Return	30.6.24 Weighted Average Maturity Days
	£m	£m	£m	%	
Banks & building societies (unsecured)	(1.9)	(0.1)	(2.0)	Average 5.15%	Up to 180 days
Government (incl. local authorities)	(3.0)	0.0	(3.0)		
Money Market Funds (MMFs)	(3.0)	1.7	(1.3)		
Multi asset income, Pooled funds	(4.0)	0.0	(4.0)	5.55%	N/A
Total investments	(11.9)	1.6	(10.3)	5.30%	

6.2. Bank Rate remained at 5.25% through the quarter with short term interest rates largely being around this level. The rates on DMADF deposits ranged between 5.19% and 5.2% and money market rates between 5.07% and 5.29%.

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 an important diversification for the Authority and generated £49k (5.55%) income return, together with a £9k (-0.26%) unrealised capital loss in year.

6.5. Accumulated unrealised capital losses over the lifetime of the investment stand at £378k. 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 quarter 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 authority continues to hold an ESG specific Investment product. 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.

7.3. At 30th June 2024 the Authorities ESG specific Money Market Fund returned 5.07% compared to an average rate of 5.23% for all Money Market Funds. The best and worst performing funds earned 5.07% and 5.29% 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:

	Budgeted (income) / loss 2024/25 £000's	Carrying Value 31.03.24 £000's	Budgeted return 2024/25 %	Net return 2023/24 %
Oak Grove Solar Farm	(400)	5,611	7.13	9.45
Newport Leisure Park & service loan	(346)	18,819	1.84	0.15*
Castlegate Business Park	99	6,654	-1.46	-3.46
Total	(647)	31,084	2.50	1.06

*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 a substantial return on investment and is reflective of the 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 is budgeted to remain slightly lower than the expected 2% return after borrowing until currently negotiated rent free concessions end.
- 8.4. The investment in Castlegate is still budgeting a net negative return on investment, however continued negotiations with interested parties should further improve the net return in 2024/25 and as rental concessions periods advance. 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.
- 8.5. A more detailed report on the performance of these investments is due to be considered by the Performance & Overview scrutiny committee in September.

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 – 2024/25 Treasury Management Outturn Quarter 1 Report

Glossary of treasury terms

12. **AUTHORS**

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