

REPORT

SUBJECT:	TREASURY MANAGEMENT ACTIVITY UPDATE - QUARTER 2 2024/25
MEETING:	Governance & Audit Committee
DATE:	28th November 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 half of the year the Authority has borrowed 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 second update of treasury management activity during 2024/25 following the Quarter 1 report being considered by this Committee on the 31th of July 2024.

2. **RECOMMENDATIONS:**

That Governance & Audit committee review the results of treasury management activities and the performance achieved in quarter 2 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	Q4 23/24	Q1 24/25	Q2 24/25
External	Bank of England base rate	5.25%	5.25%	5.00%
External	UK Consumer Prices Index	3.2%	2.0%	1.7%
External	10-year UK gilt yield	3.94%	4.29%	4.01%
Internal	Council Borrowing	£173.9m	£177.7m	£175.3m
Internal	Borrowing Average rate	3.50%	3.62%	3.60%
Internal	Investments	£11.9m	£10.3m	£16.0m
Internal	Investment Average rate	5.16%	5.30%	5.13%
Internal	Credit score/rating	A+ / 4.51	AA-/4.3	AA-/4.1

3.2. **Key messages:**

Treasury management activities undertaken during the second quarter 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 remained stable during the period.

Cash balances increased slightly over the quarter by 5.7m to £16m as part of the managed internal borrowing strategy. During the quarter, the authority's investment balances ranged from between £10.5m and £50.1m.

Investments in externally managed pooled funds generated £46k (5.68%) income return, together with an £87k (2.40%) unrealised capital gain during the quarter.

Unrealised capital losses over the lifetime of the investments stand at £290k, for which the Authority maintains a sufficient treasury risk reserve to mitigate against any required realisation.

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 4.88% compared to an average rate of 5.02% for all Money Market Funds.

Non-treasury investments, comprising the Authority's Solar farm and two strategic property assets, are forecast to generate £509k or 1.64% return during 2024/25 (1.06% in 2023/24).

4. ECONOMIC SUMMARY

- 4.1. **Economic background:** UK headline consumer price inflation remained around the Bank of England (BoE) target later in the period, falling from an annual rate of 3.2% in March to 2.0% in May and then rebounding marginally to June to 2.2% in July and August, as was expected, due to base effects from energy prices. Core and services price inflation remained higher at 3.6% and 5.6% respectively in August.
- 4.2. The UK economy continued to expand over the period, albeit slowing from the 0.7% gain in the first calendar quarter to 0.5% (downwardly revised from 0.6%) in the second.
- 4.3. With headline inflation lower, the BoE cut Bank Rate from 5.25% to 5.00% at the August Monetary Policy Committee (MPC) meeting. The decision was finely balanced, voted by a 5-4 majority with four members preferring to hold at 5.25%. At the September MPC meeting, committee members voted 8-1 for no change at 5.00%, with the lone dissenter preferring Bank Rate to be cut again to 4.75%. The meeting minutes and vote suggested a reasonably hawkish tilt to rates, with sticky inflation remaining a concern among policymakers.
- 4.4. The latest BoE Monetary Policy Report, published in August, showed policymakers expected GDP growth to continue expanding during 2024 before falling back and moderating from 2025 to 2027. Unemployment was forecast to stay around 4.5% while inflation was shown picking up in the latter part of 2024 as the previous years' energy price declines fell out of the figures before slipping below the 2% target in 2025 and remaining there until early 2027.

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 were volatile over the 6-month period and have reduced slightly between April and September 2024. Much of the downward pressure from lower inflation figures was counteracted by upward pressure from positive economic data.
- 5.3. On 30th September 2024, the PWLB certainty rates for maturity loans were 4.79% for 10 year loans, 5.27% for 20-year loans and 5.13% for 50-year loans. Their equivalents on 30th June 2024 were 4.96%, 5.37% and 5.18% respectively.
- 5.4. Whilst the cost of short-term borrowing from other local authorities spiked to around 7% in late March 2024, primarily due a dearth of LA-LA lending/borrowing activity during the month, as expected shorter-term rates reverted to a more normal range and were generally around 5.00% - 5.25%.
- 5.5. The Authority's borrowing position at the end of the quarter is:

	30.06.24 Balance	30.06.24 Weighted Average Rate	30.06.24 Weighted Average Maturity (years)	Balance Movement	30.9.24 Balance	30.9.24 Weighted Average Rate	31.9.24 Weighted Average Maturity (years)
	£m	%	(years)		£m	%	(years)
Public Works Loan Board	125.1	3.3	19.8	2.2	127.3	3.4	19.6
Banks (LOBO)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Welsh Govt Interest Free	7.5	0.0	1.7	0.5	8.0	0.0	2.7
Local Authorities / Other	45.0	5.0	0.3	(5.0)	40.0	4.9	0.4
Total borrowing	177.7	3.6	13.9	(2.4)	175.3	3.6	14.4

- 5.6. The Authority's total borrowing has reduced slightly over the quarter by £2.4m due to timing differences between temporary borrowing maturing and being replaced.
- 5.7. The weighted average maturity has increased from Q1 due to a longer dated fixed rate loan of £5m being taken during the period, providing an increased level of budget certainty.

6. INVESTMENT ACTIVITY

- 6.1. During the year, the authority's investment balances ranged from between £10.5m and £50.1m due to timing differences between income and expenditure. The movement in investments during the quarter was:

	30.6.24 Balance	Net Movement	30.9.24 Balance	30.9.24 Income Return	30.9.24 Weighted Average Maturity Days
	£m	£m	£m	%	
Banks & building societies (unsecured)	(2.0)	1.0	(1.0)	Average 5.02%	Up to 180 days

Government (incl. local authorities)	(3.0)	(5.0)	(8.0)		
Money Market Funds (MMFs)	(1.3)	(1.7)	(3.0)		
Multi asset income, Pooled funds	(4.0)	0.0	(4.0)	5.15%	N/A
Total investments	(10.3)	(5.7)	(16.0)	5.13%	

- 6.2. Bank Rate reduced from 5.25% 5.00% in August 2024 with short term interest rates largely being around these levels. The rates on DMADF deposits ranged between 4.94% and 5.19% and money market rates between 4.87% and 5.23%.
- 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 £46k (5.68%) income return, together with a £87k (2.40%) unrealised capital gain in year.
- 6.5. Accumulated unrealised capital losses over the lifetime of the investment stand at £290k. 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 September 2024 the Authorities ESG specific Money Market Fund returned 4.88% compared to an average rate of 5.02% for all Money Market Funds. The best and worst performing funds earned 4.88% and 5.03% respectively.

8. NON-TREASURY INVESTMENTS:

- 8.1. The authority continues to hold £31.08m of non-financial asset investments and their forecast performance can be seen in the table below:

	Budgeted net (income) / expenditure 2024/25 £000's	Carrying Value 31.03.24 £000's	Budgeted return 2024/25 %	Net return 2023/24 %
Oak Grove Solar Farm	(403)	5,611	7.17	9.45
Newport Leisure Park & service loan	(234)	18,819	1.24	0.15
Castlegate Business Park	128	6,654	-1.92	-3.46
Overall portfolio	(509)	31,084	1.64	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. The forecast return for the year remains lower than 2023/24 due to some grid outages and prevailing weather conditions.
- 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. 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 was received by the Performance & Overview scrutiny committee in October 2024.

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

Arlingclose Limited – External Treasury management advisors to Monmouthshire CC

11. **BACKGROUND PAPERS**

Appendix 1 – 2024/25 Treasury Management Quarter 2 update

Glossary of treasury terms

12. **AUTHORS**

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