

## REPORT

<b>SUBJECT:</b>	<b>TREASURY MANAGEMENT ACTIVITY UPDATE - QUARTER 3 2024/25</b>
<b>MEETING:</b>	<b>Governance &amp; Audit Committee</b>
<b>DATE:</b>	<b>20th February 2025</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 2024/25 was approved by Council on 22<sup>nd</sup> March 2024. Over the three quarters 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 third update of treasury management activity during 2024/25 following the Quarter 1 report being considered by this Committee on the 31<sup>th</sup> of July 2024 and quarter 2 on the 28<sup>th</sup> of November.

### 2. **RECOMMENDATIONS:**

That Governance & Audit committee review the results of treasury management activities and the performance achieved in quarter 3 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	Q3 24/25
External	Bank of England base rate	5.25%	5.25%	5.00%	4.75%
External	UK Consumer Prices Index	3.2%	2.0%	1.7%	2.6%
External	10-year UK gilt yield	3.94%	4.29%	4.01%	4.57%
Internal	Council Borrowing	£173.9m	£177.7m	£175.3m	£184.5m
Internal	Borrowing Average rate	3.50%	3.62%	3.60%	3.71%
Internal	Investments	£11.9m	£10.3m	£16.0m	£15.5m
Internal	Investment Average rate	5.16%	5.30%	5.13%	5.03%
Internal	Credit score/rating	A+ / 4.51	AA-/4.3	AA-/4.1	AA-/3.95

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

<i>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.</i>
<i>The Authorities average cost of borrowing has increased slightly during the period, reflective of volatility in Government gilt yields.</i>
<i>Cash balances reduced slightly over the quarter by 0.5m to £15.5m as part of the managed internal borrowing strategy. During the quarter, the authority's investment balances ranged from between £12.5m and £30.5m.</i>
<i>Investments in externally managed pooled funds generated £49k (5.37%) income return, together with an £66k (-1.77%) unrealised capital gain during the quarter.</i>
<i>Unrealised capital losses over the lifetime of the investments stand at £354k, for which the Authority maintains a sufficient treasury risk reserve to mitigate against any required realisation.</i>
<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 4.66% compared to an average rate of 4.76% for all Money Market Funds.</i>
<i>Non-treasury investments, comprising the Authority's Solar farm and two strategic property assets, are forecast to generate £478k or 1.54% return during 2024/25 (1.06% in 2023/24).</i>

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

- 4.1. **Economic background:** The Chancellor of the Exchequer delivered her Autumn Budget at the end of October. Based on the plans announced, the Office for Budget Responsibility reported they would provide a short-term boost to GDP growth before weakening it further out and push inflation higher over the medium-term. This change to the economic and inflation outlook caused financial markets to readjust expectations of Bank of England (BoE) Bank Rate and gilt yields higher. The council's treasury management advisor, Arlingclose, also revised its interest rate forecast upwards in November, with Bank Rate expected to eventually fall to 3.75%.
- 4.2. UK annual Consumer Price Index (CPI) inflation remained above the Bank of England (BoE) 2% target in the later part of the period. The Office for National Statistics (ONS) reported headline consumer prices rose 2.6% in November 2024, up from 2.3% in the previous month and in line with expectations. Core CPI also rose, but by more than expected, and remained elevated at 3.6% in November against a forecast of 3.5% and compared to 3.3% in the previous month.
- 4.3. UK economy GDP registered no growth (0.0%) between July and September 2024 and 0.4% between April and June 2024, a further downward revision from the 0.5% rate previously reported by the ONS. Of the monthly GDP figures, the economy was estimated to have contracted by 0.1% in October, following the same size decline in September.
- 4.4. The BoE's Monetary Policy Committee (MPC) held Bank Rate at 4.75% at its December 2024 meeting. The meeting minutes suggested a reasonably dovish tilt to rates with the outlook for economic growth a concern among policymakers as the Bank downgraded its Q4 GDP forecast from 0.3% to 0.0%.

#### 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 but have increased overall during the period. Much of the increase has been in response to market concerns that policies introduced by the Labour government will be inflationary and lead to higher levels of government borrowing. The election of Donald Trump in the US in November is also expected to lead to inflationary trade policies.
- 5.3. The PWLB certainty rate for 10-year maturity loans was 4.80% at the beginning of the period and 5.40% at the end. The lowest available 10-year maturity rate was 4.52% and the highest was 5.44%. Rates for 20-year maturity loans ranged from 5.01% to 5.87% during the period, and 50-year maturity loans from 4.88% to 5.69%.
- 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 that month, as expected shorter-term rates reverted to a more market-consistent range and were generally around 5.00% - 5.5%. Rising rates were seen towards the end of the period in the LA-LA market.
- 5.5. The Authority's borrowing position at the end of the quarter is:

	30.09.24 Balance  £m	30.09.24 Weighted Average Rate %	30.09.24 Weighted Average Maturity (years)	Balance Movement	31.12.24 Balance  £m	31.12.24 Weighted Average Rate %	31.12.24 Weighted Average Maturity (years)
Public Works Loan Board	127.3	3.4	19.6	8.5	135.8	3.5	18.5
Banks (LOBO)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Welsh Govt Interest Free	8.0	0.0	2.7	(0.3)	7.7	0.0	2.3
Local Authorities / Other	40.0	4.9	0.4	1.0	41.0	5.1	0.4
<b>Total borrowing</b>	<b>175.3</b>	<b>3.6</b>	<b>14.4</b>	<b>9.2</b>	<b>184.5</b>	<b>3.71</b>	<b>13.8</b>

- 5.6. The Authority's total borrowing has increased by £9.2 million over the quarter. This increase is attributed to the strategic renewal of borrowings ahead of the original loan maturities, allowing the Authority to secure more favourable rates.

## 6. **INVESTMENT ACTIVITY**

- 6.1. During the quarter, the authority's investment balances ranged from between £12.5m and £30.5m due to timing differences between income and expenditure. The movement in investments during the quarter was:

	30.9.24 Balance  £m	Net Movement  £m	31.12.24 Balance  £m	31.12.24 Income Return  %	31.12.24 Weighted Average Maturity Days
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Banks & building societies (unsecured)	(1.0)	1.0	0.0	Average 4.89%	Up to 180 days
Government (incl. local authorities)	(8.0)	(1.0)	(9.0)		
Money Market Funds (MMFs)	(3.0)	0.5	(2.5)		
Multi asset income, Pooled funds	(4.0)	0.0	(4.0)	5.44%	N/A
<b>Total investments</b>	<b>(16.0)</b>	<b>0.5</b>	<b>(15.5)</b>	<b>5.03%</b>	

- 6.2. Bank Rate reduced from 5.00% to 4.75% in November 2024 with short term interest rates largely being around these levels. The rates on DMADF deposits ranged between 4.70% and 4.94% and money market rates between 4.63% and 5.03%.
- 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 (5.37%) income return, together with a £66k (-1.77%) unrealised capital during the quarter. In the first nine months of 2024/25 the pooled funds have generated £151k (5.54%) income return and £14k (0.39%) unrealised capital gain.
- 6.5. Accumulated unrealised capital losses over the lifetime of the investment stand at £354k. 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. As at 31st December 2024 the Authorities ESG specific Money Market Fund returned 4.66% compared to an average rate of 4.76% for all Money Market Funds

## 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	(323)	5,611	5.76	9.45
Newport Leisure Park & service loan	(234)	18,819	1.24	0.15*
Castlegate Business Park	128	6,654	-1.92	-3.46
<b>Overall portfolio</b>	<b>(478)</b>	<b>31,084</b>	<b>1.54</b>	<b>1.06</b>

\*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 2025/26 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.

## 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 3 update

Glossary of treasury terms

## 12. **AUTHORS**

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