

## REPORT

|                                 |                                                   |
|---------------------------------|---------------------------------------------------|
| <b>SUBJECT:</b>                 | <b>TREASURY MANAGEMENT OUTTURN REPORT 2024/25</b> |
| <b>MEETING:</b>                 | <b>Governance &amp; Audit Committee</b>           |
| <b>DATE:</b>                    | <b>12<sup>th</sup> June 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. This report represents the fourth and final 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 4 and throughout 2024/25 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 2024/25 was approved by Council on 22<sup>nd</sup> February 2024. Over the final quarter of the year the Authority has continued to borrow and invest substantial sums of money and has therefore been 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 | 5.25%     | 5.00%     | 4.75%      | 4.50%     |
| External | UK Consumer Prices Index  | 2.0%      | 1.7%      | 2.5%       | 2.6%      |
| External | 10-year UK gilt yield     | 4.29%     | 4.01%     | 4.57%      | 4.69%     |
| Internal | Borrowing                 | £177.7m   | £175.3m   | £184.5m    | £202.3m   |
| Internal | Borrowing Average rate    | 3.62%     | 3.60%     | 3.71%      | 3.90%     |
| Internal | Investments               | £10.3m    | £16.0m    | £15.5m     | £16.0m    |
| Internal | Investment Average rate   | 5.30%     | 5.13%     | 5.03%      | 5.17%     |
| Internal | Credit score/rating       | AA- / 4.3 | AA- / 4.1 | AA- / 3.95 | A+ / 4.50 |

#### 3.3. **Key messages:**

|                                                                                                                                                                                                                                                                                                                           |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <i>Treasury management activities undertaken during the last quarter and for the full 2024/25 financial year 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 over the year, driven by increases in Gilt yields which have remained volatile. Financial market sentiment was reasonably positive over most of the period, but economic, financial and geopolitical issues meant the trend of market volatility remained.</i> |
| <i>£3.0m 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. The Authority has no remaining LOBO loans.</i>                                            |
| <i>Cash balances increased slightly over the year but remain comparatively low as part of the continued internal borrowing strategy. During the year, the authority's investment balances ranged from between £10.2m and £50.1m.</i>                                                                                      |
| <i>Investments in externally managed pooled funds generated £197k (5.42%) income return, together with a £10k (0.27%) unrealised capital loss in year.</i>                                                                                                                                                                |
| <i>Unrealised capital losses over the lifetime of the investments stand at £378k, for which the Authority maintains a sufficient risk reserve to mitigate against realisation. The statutory override relating to the realisation of capital gains/losses has been extended to 1 April 2029.</i>                          |
| <i>The authority continues to utilise an Environmental, Social and Governance specific Investment product opened in 2023/24. 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 measures.</i>    |
| <i>Non-treasury investments, comprising the Authority's Solar farm and two strategic investment property assets, generated a £11k or 0.04% return (1.06% in 2023/24). This was inclusive of a bad debt provision of £417k (the return excluding this provision was 1.52%).</i>                                            |

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

- 4.1. **Economic background:** Both the UK and US elected new governments during the period, whose policy decisions impacted the economic outlook. The Chancellor of the Exchequer delivered her Spring Statement in March 2025, following her Budget in October 2024. Based on the plans announced, the Office for Budget Responsibility downgraded its predictions for UK growth in 2025 to 1% from 2%. However, it upgraded its predictions for the four subsequent years. Inflation predictions for 2025 were pushed up, to 3.2% from 2.6%, before seen as falling back to target in 2027. The market reaction to the Spring Statement was more muted compared to the Budget, with very recent market turbulence being driven more by US trade policy decisions and President Trump.
- 4.2. UK annual Consumer Price Index (CPI) inflation continued to stay above the 2% Bank of England (BoE) target in the later part of the period. The Office for National Statistics (ONS) reported headline consumer prices at 2.8% in February 2025, down from 3.0% in the previous month and below expectations. Core CPI also remained elevated, falling slightly in February to 3.5% from 3.7% in January, just below expectations for 3.6% but higher than the last three months of the calendar year.
- 4.3. The UK economy Gross Domestic Product (GDP) grew by 0.1% between October and December 2024, unrevised from the initial estimate. This was an improvement on the zero growth in the previous quarter, but down from the 0.4% growth between April and June 2024. Of the monthly GDP figures,

the economy was estimated to have contracted by 0.1% in January, worse than expectations for a 0.1% gain.

- 4.4. The BoE's Monetary Policy Committee (MPC) held Bank Rate at 4.5% at its March 2025 meeting, having reduced it in February. This follows earlier 0.25% cuts in November and August 2024 from the 5.25% peak. At the March MPC meeting, members voted 8-1 to maintain Bank Rate at 4.5%, with the one dissenter preferring another 25 basis points cut. The meeting minutes implied a slightly more hawkish tilt compared to February when two MPC members wanted a 50bps cut. In the minutes, the Bank also upgraded its Q1 2025 GDP forecast to around 0.25% from the previous estimate of 0.1%.

## 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. Economic, financial and geopolitical issues has resulted in the trend of market volatility remaining during the year. In the latter part of the year, volatility increased and bond yields started to fall following a January peak, as the economic uncertainty around likely US trade policy impacted financial markets.
- 5.3. The PWLB certainty rate for 10-year maturity loans was 4.80% at the beginning of the period and 5.42% at the end. The lowest available 10-year maturity rate was 4.52% and the highest was 5.71%. Rates for 20-year maturity loans ranged from 5.01% to 6.14% during the period, and 50-year maturity loans from 4.88% to 5.88%.
- 5.4. For the majority of the year the cost of short-term borrowing from other local authorities closely tracked Base Rate at around 5.00% - 5.25%. However from late 2024 rates began to rise, peaking at around 6% in February and March 2025.
- 5.5. The Authorities' borrowing position at the end of the year can be seen below:

|                           | <b>31.3.24<br/>Balance</b> | <b>31.3.24<br/>Weighted<br/>Average<br/>Rate</b> | <b>31.3.24<br/>Weighted<br/>Average<br/>Maturity<br/>(years)</b> | <b>Balance<br/>Movement</b> | <b>31.3.25<br/>Balance</b> | <b>31.3.25<br/>Weighted<br/>Average<br/>Rate</b> | <b>31.3.25<br/>Weighted<br/>Average<br/>Maturity<br/>(years)</b> |
|---------------------------|----------------------------|--------------------------------------------------|------------------------------------------------------------------|-----------------------------|----------------------------|--------------------------------------------------|------------------------------------------------------------------|
|                           | <b>£m</b>                  | <b>%</b>                                         | <b>(years)</b>                                                   |                             | <b>£m</b>                  | <b>%</b>                                         | <b>(years)</b>                                                   |
| Public Works Loan Board   | 125.1                      | 3.3                                              | 20.1                                                             | 20.4                        | 145.5                      | 3.7                                              | 17.0                                                             |
| 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                                                              | (1.0)                       | 6.7                        | 0.0                                              | 2.7                                                              |
| Local Authorities / Other | 38.0                       | 4.9                                              | 0.4                                                              | 12.0                        | 50.0                       | 5.3                                              | 0.4                                                              |
| <b>Total borrowing</b>    | <b>173.9</b>               | <b>3.5</b>                                       | <b>14.9</b>                                                      | <b>28.4</b>                 | <b>202.3</b>               | <b>3.9</b>                                       | <b>12.4</b>                                                      |

- 5.6. The Authority's total borrowing increased by £28.4 million over the year, reflecting the decision to secure additional long-term borrowing to provide greater cost certainty. In some instances, long-term borrowing was arranged in advance of the maturity of the short-term debt it was intended to replace, enabling the Authority to take advantage of favourable movements in interest rates.

- 5.7. The lender of the authorities remaining Lender's Option Borrower's Option (LOBO) Loan exercised their option to call and increase the interest rate on their loans of £3.0m. The option exercised proposed a rate change from 4.50% to 8.2%. The Authority chose to repay this loan at no extra cost, financing initially through short term cashflows and then through a new PWLB equal instalment of principal (EIP) loans.

## 6. INVESTMENT ACTIVITY

- 6.1. During the year, the authority's investment balances ranged from between £10.2m and £50.1m due to timing differences between income and expenditure. The movement in investments during the year was:

|                                        | 31.3.24<br>Balance | Net<br>Movement | 31.3.25<br>Balance | 31.3.25<br>Income<br>Return | 31.3.25<br>Weighted<br>Average<br>Maturity<br>Days |
|----------------------------------------|--------------------|-----------------|--------------------|-----------------------------|----------------------------------------------------|
|                                        | £m                 | £m              | £m                 | %                           |                                                    |
| Banks & building societies (unsecured) | (1.9)              | (0.1)           | (2.0)              | Average<br>5.09%            | Up to 180<br>days                                  |
| Government (incl. local authorities)   | (3.0)              | 0.0             | (3.0)              |                             |                                                    |
| Money Market Funds (MMFs)              | (3.0)              | (4.0)           | (7.0)              |                             |                                                    |
| Multi asset income, Pooled funds       | (4.0)              | 0.0             | (4.0)              | 5.42%                       | N/A                                                |
| <b>Total investments</b>               | <b>(11.9)</b>      | <b>(4.1)</b>    | <b>(16.0)</b>      |                             |                                                    |

- 6.2. Bank Rate reduced from 5.25% to 5.00% in August 2024, again to 4.75% in November 2024 and again to 4.5% in February 2025 with short term interest rates largely being around these levels. The rates on DMADF deposits ranged between 4.45% and 5.19% and money market rates between 4.5% and 5.3%.
- 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 £197k (5.42%) income return, together with a £10k (0.27%) 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.
- 6.6. The IFRS 9 Statutory Override that means that fair value movements of these investments do not have to be recognised directly in the General Fund. was originally set to end on 31 March 2025. However, following feedback from the 2025 Local Government Finance Settlement consultation, the Government has decided to implement transitional arrangements for legacy investments.
- 6.7. The IFRS 9 Statutory Override will remain in place for the Council's existing pooled fund investments held as of 1 April 2024. The override will continue to apply to these investments until 1 April 2029.

## 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 funds actively invested in by the Authorities' continued to be 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 previous financial year 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 31<sup>st</sup> March 2025 the ESG specific Money Market Fund returned 4.41% compared to an average rate of 4.52% for all non ESG specific Money Market Funds.

## 8. **NON-TREASURY INVESTMENTS:**

- 8.1. The authority continues to hold £28.2m (£31.1m as at 31st March 2024) of non-financial asset investments and their forecast performance can be seen in the table below:

|                                     | <b>Net<br/>(income) /<br/>loss<br/>2024/25<br/>£000's</b> | <b>Carrying<br/>Value<br/>31.03.25<br/>£000's</b> | <b>Net<br/>return<br/>2024/25<br/>%</b> | <b>Net<br/>return<br/>2024/25<br/>%</b> |
|-------------------------------------|-----------------------------------------------------------|---------------------------------------------------|-----------------------------------------|-----------------------------------------|
| Oak Grove Solar Farm                | (304)                                                     | 5,785                                             | 5.25                                    | 9.45                                    |
| Newport Leisure Park & service loan | (220)                                                     | 15,616                                            | 1.41                                    | 0.15*                                   |
| Castlegate Business Park            | 513                                                       | 6,784                                             | -7.56**                                 | -3.46                                   |
| <b>Total</b>                        | <b>(11)</b>                                               | <b>28,185</b>                                     | <b>0.04</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%).

\*\*includes one-off provision for bad debt of £248k & £169k relating to service charges and business rates respectively. Net return excluding this write-off would be -1.42% (overall portfolio 1.52%)

- 8.2. The investment at Oak Grove Solar Farm continues to provide a good return on investment and is reflective of higher energy prices and 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 remains lower than the expected 2% return (after borrowing are allowed for) until currently negotiated rent free periods with new tenants' end.
- 8.4. The investment in Castlegate is still providing a net negative return on investment, however continued negotiations with interested parties will further improve the net return in 2025/26 following the end of 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.

## 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

Head of Finance, (Section 151 officer)

Arlingclose Limited – External Treasury management advisors to Monmouthshire CC

11. **APPENDICIES**

Appendix 1 – 2024/25 Treasury Management Outturn report

Glossary of treasury terms

12. **AUTHORS**

Daniel Francis

Finance Business Partner

Email: [danielfrancis@monmouthshire.gov.uk](mailto:danielfrancis@monmouthshire.gov.uk)

Phone: (01633) 644895